

# FINANCIAL TIMES

Europe's Business Newspaper

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## Philip Morris acts against Australian ban on advertising

Philip Morris, US cigarettes, food and brewing giant, launched a High Court action in Australia, seeking to overturn the country's ban on cigarette advertising on the grounds that it denies "commercial freedom of speech".

Tobacco advertising became illegal in Australia last year. The country will also phase out cigarette sponsorship of sporting events by the mid-1990s unless exemptions are obtained. Page 18

**South Korea steps up state of readiness:** South Korea took emergency steps to guard against a possible military response by North Korea in the dispute over nuclear inspections. Page 19

**Sara Lee Corporation,** US food and personal products company, is to take a \$48m after-tax charge against earnings in its fourth quarter for a worldwide restructuring effort. Page 19

**Veterans gather on Omaha beach:** Veterans and international leaders gathered on Omaha beach, the most notorious of the five Normandy landing points because of heavy US casualties, for the closing ceremony of the D-Day commemorations. Page 18

**BPC puts off flotation:** British Printing Company, the UK's largest commercial printer, postponed its planned flotation and said it was now unlikely to seek a stock market listing before the end of the year. Page 20; Lex, Page 18

**160 die in China air crash:** A China Northwest Airlines Tupolev-154 on a flight from the tourist centre of Xian to the southern city of Guangzhou crashed shortly after takeoff, killing all 160 people on board. Page 5; China air space rows, Page 4

**Franco-US plastics ventures:** Union Carbide of the US and Elf Atochem of France, part of Elf Aquitaine, are to create a joint venture in France for the manufacture of specialist plastics. Page 4

**El Al sale planned:** The Israeli government announced plans to sell off 51 per cent of El Al, the national airline, by the end of the year, with the remaining 49 per cent to be disposed of later. Page 5; Swiss chief gives pledge on ownership of Cathay, Page 22

**Swedish paper for US medical groups:** Smiths Industries, UK aerospace and healthcare group, is paying \$10m for Deltec, a US medical equipment manufacturer owned by Pharmacia of Sweden. Page 22

**Electricity in Portugal:** state-owned power utility, is to be split into 10 enterprises and electricity production and distribution is to be partially privatised. Page 19

**Dutch telecom shares priced:** A first tranche of shares in Koninklijke PTT Nederland, state-owned Dutch postal and telecommunications operator, will be floated next week at Fl 49.75 a share, valuing the company at Fl 22.5bn (\$12.3bn). The price is slightly higher than many analysts had predicted. Page 19

**Thailand's Imperial Hotels sold for \$132m:** Thailand's Imperial Hotels Group has been sold to Charoen Sirakwatana, one of the country's richest men, in a deal which values the company at \$132m. Page 22

**Arms pour into Turkey and Greece:** The arsenals of Turkey and Greece, nominal NATO allies whose chronically tense relations have come under fresh strain in recent weeks, are being upgraded at an unprecedented pace, an independent study shows. Page 2

**Norway in gas deal with France:** Norway announced a 20-year contract, valued at Nkr50bn (\$5.9bn) at current prices, to supply natural gas to France. Page 4

**UK car registrations rise 10%:** New UK car registrations in May were up 10 per cent year-on-year to 150,070 as demand rebounded from the impact of tax increases in April, the Society of Motor Manufacturers and Traders said. Page 6

**BAA to double airport investment:** BAA, the privatised UK airports group, announced plans to double capital spending to \$1.4bn (\$2.1bn) over the next three years after reporting a 13 per cent rise in annual pre-tax profits to \$322m. Page 18; Lex, Page 18; \$1bn Heathrow outlay planned, Page 24

**Stagnant incomes for top accountants:** Five of the UK's "Big Six" accountancy firms experienced virtually stagnant fee incomes and cut staff sharply in the last year, figures released yesterday show. Page 20

STOCK MARKET INDICES		STERLING	
FT-SE 100	3084.4 (+11.9)	New York headline	5,998.45
FT-SE 250	4,118 (+1.9)	London	1,590.45
FT-SE 100-100	-1478.61 (+15.23)	London	1,590.45
FT-SE 100-100	-1478.61 (+15.23)	London	1,590.45
FT-SE 100-100	-1478.61 (+15.23)	London	1,590.45
FT-SE 100-100	-1478.61 (+15.23)	London	1,590.45
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FT-SE 100-100	-1478.61 (+15.23)	London	1,590.45
FT-SE 100-100	-1478.61 (+15.23)	London	1,590.45

## Delors retreat boosts prospects for summit

By Lionel Barber in Luxembourg

Mr Jacques Delors, president of the European Commission, yesterday staged a tactical retreat over his plans to launch "Union bonds" to finance the multi-billion dollar transport, telecom, communications and energy projects known as trans-European networks.

In a further conciliatory gesture, Mr Delors agreed to a German plan to set up an independent panel of experts to study barriers to deregulation on condition that it examined both EU and national laws.

The compromise on deregulation cools

a potentially damaging row between the Commission and an Anglo-German alliance favouring tighter controls on Brussels legislation.

As a result of the two agreements a meeting of EU finance ministers in Luxembourg ended on a positive note, boosting prospects for a harmonious European summit in Corfu later this month. But there is still a risk of a showdown between EU heads of government over who should succeed Mr Delors as head of the Commission.

Arguments over financing of the trans-European networks quickly evaporated at yesterday's session in Luxembourg.

Mr Delors stated at the outset he was unwilling to press the case for Commission borrowing on the capital markets to fill an alleged "financing gap" of around Ecu5bn (\$5.8bn).

The UK, Germany, the Netherlands and Italy all made clear that they wanted strict appraisal of the feasibility of the networks - a point echoed by Sir Brian Urwin, president of the European Investment Bank, which is expected to provide the bulk of capital.

Sir Brian said: "I will not express any views on whether there needs to be a new financial instrument, but the EIB is ready to do very much more in financ-

ing networks. The EIB can raise very large financing for sound projects."

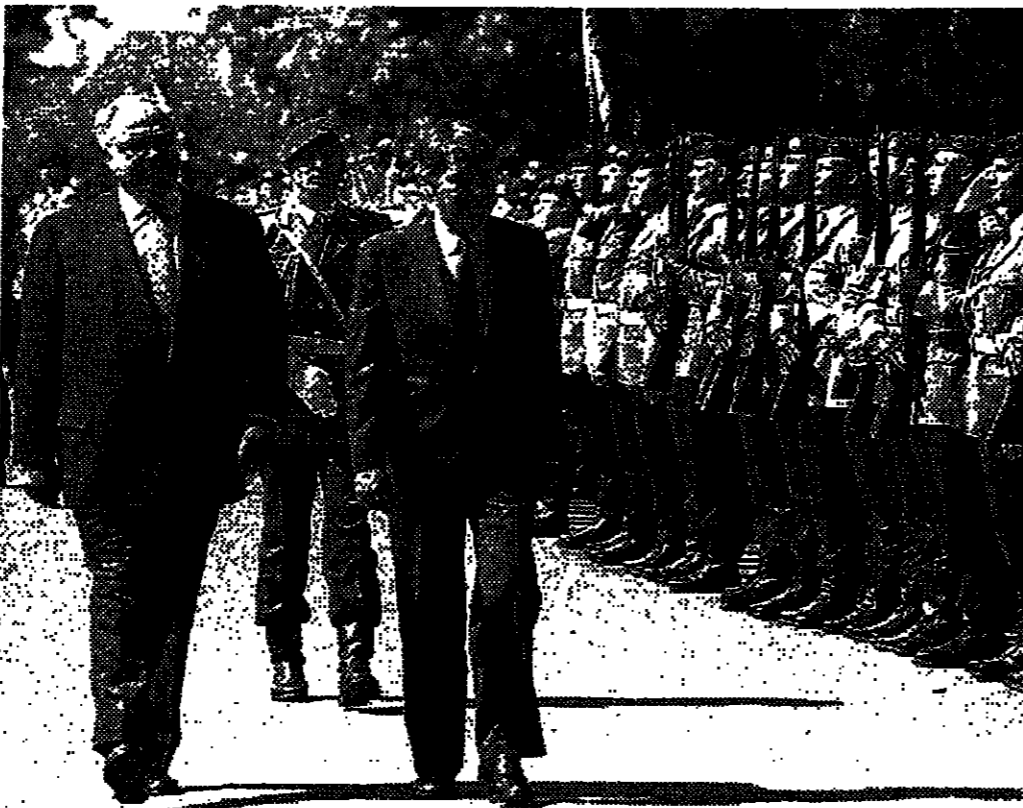
A working group headed by Mr Henning Christophersen, economics commissioner, has identified 10 priority projects. These include high-speed rail links from Paris to Strasbourg, and Munich to Berlin; a rail-road tunnel through the Brenner pass in Italy; and motorway routes between Lisbon and Valladolid in Spain.

Mr Delors, who views the networks as vital for improving European competitiveness and creating jobs, said he hoped work could start on January 1 1995. He remains adamant, however, that the pri-

vate sector and the EIB alone cannot raise enough capital.

Under the new deal on deregulation, a panel of experts will not only scrutinise existing European Union laws, but will put member states under the microscope in recognition that most labour market law is at national level. "This way we have dealt with Mr Delors' complaint that the Commission was being turned into a scapegoat," said one diplomat.

The panel is likely to include academics, businessmen and civil servants from member states with a remit to produce a report by 1995.



March past: Chancellor Helmut Kohl of Germany (left) and Spanish prime minister Felipe Gonzalez inspect the guard of honour at Schwerin in east Germany. The two leaders were in the town for Franco-German talks yesterday on co-ordinating European Union policies. A news conference is planned for this morning.

## Boost from US demand and European exports

# Stronger growth in industrial nations forecast by OECD

By Peter Norman, Economics Editor, in Paris

The Organisation for Economic Co-operation and Development has revised upwards its projections of economic growth in the industrialised world this year to reflect stronger than expected US expansion and improved European exports.

The organisation, which last night released highlights of its latest forecasts ahead of today's annual meeting of OECD ministers in Paris, now expects industrial countries will grow by 2.6 per cent this year, half a percentage point more than in its last forecast in December.

Its projections, which do not include Mexico, which joined the OECD last month, suggest that the 24 longest-established member states will achieve overall growth of 2.9 per cent next year, up slightly from 2.7 per cent forecast six months ago.

Officials said the upward revision reflected the effects of strong US growth in the final quarter of last year, better than expected exports from Europe, and the Japanese government's economic stimulation package of February.

The organisation expects a robust 4.4 per cent increase in US

OECD OUTLOOK Summary of projections (Seasonally adjusted at annual rates)			
	1993	1994	1995
Real GDP (% change)			
US	3.0	4.0	3.0
Japan	0.1	0.8	2.7
Germany	-1.3	1.8	2.6
OECD Europe	-0.2	1.9	2.8
Total OECD	1.2	2.6	2.9
World Trade	3.3	6.7	7.2

Inflation (GDP deflator) (% change)			
	1993	1994	1995
US	2.5	2.1	2.8
Japan	1.0	0.8	0.8
Germany	3.9	2.8	2.0
OECD Europe	3.6	2.9	2.4
Total OECD	2.6	2.1	2.3

\*Main assumptions include: no change in policies; no change in exchange rates from May 10 1994  
\*From previous period  
Source: OECD Outlook 65, to be published late June 1994

domestic demand in 1994 will lift gross domestic product by 4 per cent this year, compared with its previous forecast of 3.1 per cent GDP growth.

Although it expects US GDP growth next year will slow to 3 per cent, this rate of expansion would still be faster than the 2.7 per cent growth forecast for 1995 in December.

In Germany's case, it now

expects GDP growth of 1.8 per cent this year compared with 0.8 per cent previously. While exports are expected to be buoyant, Germany's domestic demand is expected to increase by only 1 per cent this year and 2.2 per cent next year.

German GDP is projected to grow by 2.6 per cent next year compared with the 2.2 per cent forecast last December.

The OECD disclosed slight upwards revisions to its projections for Japanese growth. It expects Japan's economy will expand 0.8 per cent this year, against 0.5 per cent previously, and 2.7 per cent in 1995.

The OECD forecasts a continuing divergence of employment trends between the US and Europe. It expects average unemployment in the US to drop below 6 per cent of the labour force next year, while in Europe it is expected to average nearly 12 per cent.

Inflation, as measured by the GDP deflator, is expected to decline in Europe and be broadly steady in Japan over the next 18 months, but is forecast to quicken in the US to 3.1 per cent by the end of 1995 from 2.1 per

Continued on Page 18  
Editorial Comment, Page 17

## Unilever hits back as detergents battle heats up

By Tony Jackson in London  
and Ronald van de Krol  
in Amsterdam

The wrangle over Unilever's revolutionary new detergent showed no sign of easing yesterday as the Anglo-Dutch giant claimed sharp increases in UK market share despite accusations from a rival that it damages clothes.

But in the Netherlands a leading supermarket chain said it was considering whether to stop stocking the product.

The detergent, launched across Europe last month under various brand names such as Persil Power and Omo Power, has been attacked as harmful to clothes by manufacturer Procter & Gamble.

Unilever said yesterday that Persil Power's share of the total UK detergent market had jumped from 7 per cent to 10 per cent in recent weeks. Its UK share of the fast-growing market for concentrated detergents, in which Unilever has lost ground to Procter & Gamble in recent years, is estimated to have risen from about 20 per cent to 30 per cent.

Mr Andrew Seth, chief executive of Unilever's UK detergents business, said this was a larger and faster increase than the company had expected.

Albert Heijn, the biggest Dutch supermarket chain, yesterday asked Unilever for further information about the detergent so that it can decide whether to continue stocking it. Heijn said it expected to hear from Unilever today.

"There have been reports in the media that the product is not reliable, but it is only fair and

## Sprint and EDS to continue talks after merger fails

By Martin Dickson in Kansas City  
and Andrew Adonis  
in London

Sprint, the US telecommunications group, and Electronic Data Systems, the world's largest computing services company, said yesterday that they had abandoned negotiations for a \$30bn merger but were still exploring other forms of strategic relationship.

The merger talks failed because of a disagreement between the two sides over the value to be placed on Sprint, according to sources close to the negotiations.

Mr Les Albertthal, chairman of EDS, and Mr William Esey, chief executive of Sprint, said yesterday that they still believed the convergence of their two industries would create tremendous opportunities. While a merger was no longer being discussed, "there may be other ways we can work together to achieve strategic objectives."

Sprint, the third largest US long-distance operator, is believed still to be seeking an alliance with a European telecommunications group to further its international ambitions. It has been in talks with the French and German state telecoms operators, but the discussions do not appear to have influenced the failure of the EDS deal.

Sprint, based in Kansas City, Missouri, declines to confirm or deny the European discussions. But one source claimed yesterday that European partners had been looking at a significant equity investment in Sprint or the combined Sprint/EDS group.

One European analyst said: "Sprint needs an alliance to be credible outside the US, but it needs a cash injection if it is to go anywhere, which makes a Franco-German link up very

attractive." A merger with EDS might have led to the creation of an information services powerhouse, with a market capitalisation of \$30bn and annual revenues of more than \$20bn.

The immediate reason for the collapse of the merger was money. The proposal under discussion involved EDS shareholders getting one new share in the combined company for every EDS share. EDS thought Sprint shareholders should get 1.1 shares in the new business, while Sprint demanded 1.3. EDS seems to have been surprised at the premium demanded by Sprint in what had been billed a "merger of equals".

However, some Wall Street analysts said yesterday that a deal at 1.1 ratio could have meant a 10 to 15 per cent dilution in Sprint earnings per share, while a 1.3 ratio might have added to first year earnings.

Dallas-based EDS has held discussions with numerous potential telecommunications partners in recent years - including British Telecom - but in the past found it hard to clinch alliances because of its unusual ownership structure.

BT has since forged a \$5.3bn alliance with MCI, the second largest US telecoms group.

EDS is a subsidiary of General Motors, which retains ownership of its assets, while holders of a special type of GM stock, known as class E, have a claim on EDS's dividend stream.

To help the Sprint merger negotiations, GM said last month it could consider spinning off full ownership of EDS to Class E stockholders through an exchange of class E stock for new EDS common stock, provided this was tax free.



## New top echelon named at IMF

By George Graham  
in Washington

The International Monetary Fund has expanded its top level of management, naming three new deputy managing directors to take the place of Mr Richard Erb, the outgoing deputy managing director.

Mr Michel Camdessus, IMF managing director, yesterday appointed Mr Stanley Fischer, an economist at the Massachusetts Institute of Technology in the US, along with Mr Alassane Ouattara, former prime minister of Ivory Coast, and Mr Prabhakar Narvekar, an IMF official.

Since the IMF's top position is usually held by a European, the deputy's post has been, by tradition, in the gift of the US. In recent weeks US Treasury officials have been at pains to ensure that they retained this pre-eminence.

Mr Fischer was accordingly named first deputy managing director, with broad responsibilities across all the issues facing the IMF.

All three deputies have worked for many years in international financial institutions. Mr Fischer used to be chief economist at the World Bank, just across the road from the IMF in Washington, while Mr Narvekar has spent more than 40 years at the IMF.

Mr Ouattara, meanwhile, has twice before worked for the IMF. He left in 1988 to become governor of the central bank of the African franc zone and, later, to take charge of the Ivory Coast's economy.

The decision to enlarge the IMF's upper hierarchy has been greeted by some suspicion within the organisation. Some IMF officials fear that it will simply add another layer above that of the regional directors, who now report directly to Mr Camdessus.

He said yesterday that the reorganisation was the first since a deputy managing director was appointed in 1949, and was necessary to deal with the rapid expansion in the IMF's membership.

## California dominates primary day in US

By Jurek Martin, US  
Editor, in Washington

California dominates the heaviest mid-term primary round today in the US, where eight states choose candidates to contest four governorships, five senate seats and 87 House of Representatives places.

Mr Pete Wilson, the Republican governor, and Ms Kathleen Brown, the Democratic state treasurer, are strongly favoured in California to emerge as opponents in the country's most important race in November. The outcome will have a heavy bearing on the 1996 presidential election - a Republican victory would be a clear setback for President Bill Clinton and the Democrats.

Mr Wilson must first beat Mr Ron Unz, a computer magnate from the far right whose campaign has been mostly self-financed. The governor holds a lead of upwards of 20 points.

Ms Brown's father, Edmund G. Brown Sr, known as Pat, and her brother Jerry each served two terms as governor of California. She must overcome challenges from Mr John Garamendi, the state insurance commissioner, and Mr Tom Hayden, now a state senator, once an anti-Vietnam War activist and once husband of Jane Fonda, the actress.

Six months ago, with California still in recession and Mr

Wilson unpopular, Ms Brown seemed certain to continue the family political dynasty. But, with her campaign lacking definition and the economy improving, the governor, prominent in rebuilding efforts after the Los Angeles earthquake in January, has recovered.

Mr Wilson has also benefited politically by riding with the Californian backlash against illegal immigration. A Los Angeles Times poll last week found 58.32 per cent support for a proposition that may be on the November ballot and would bar illegal immigrants from many public services, including education. Ms Brown opposes such a move.

Also closely watched is the race for the Senate seat held by Ms Dianne Feinstein, a Democrat. Her likely Republican challenger is Congressman Michael Huffington, if he beats former Congressman Bill Dannemeyer, another ultra-conservative.

Mr Huffington's main claims to fame are less his political record than his vast oil wealth - he spent a national record of \$10m (\$5.6m) to win his House seat two years ago - and ambitious wife. She is the former Ms Arianna Stassinopoulou, an author who cut a wide social swathe through Britain in the 1970s and now seems intent on propelling her husband to the top of the US political tree.

Again, Ms Feinstein had looked unbeatable, but her approval ratings have dropped below 50 per cent and she now holds poll leads of only 5-14 points. As in the Wilson-Brown race, Ms Feinstein and Mr Huffington have already begun directly attacking each other.

In other races across the country, there is less opportunity for the fundamentalist right to make a clear mark, as happened last weekend with the nomination of Mr Oliver North as Republican senatorial candidate in Virginia. Senator Bob Dole, Republican minority leader in the Senate, was concerned enough about the broader message of that selection to say he might not welcome Mr North to the chamber.

Most closely watched will be the Democratic senate primary in Montana, where Senator Conrad Burns is one of the few vulnerable Republicans for November. Mr Jack Mudd is favoured to beat former Senator John Melcher, but the Democratic race has been complicated by the presence of a third candidate, Ms Becky Shaw, girlfriend of a former close aide to Mr Melcher. She may draw votes from Mr Mudd.

In Iowa, Governor Terry Branstad, in pursuit of a fourth term, is in a tight Republican primary against Congressman Fred Grandy.



Western hopefuls: Dianne Feinstein, John Garamendi and Pete Wilson are running in California

## Driving those yellow dog blues out of the Old South

George Graham finds the US Republican party trying to advance on what used to be unpromising ground in the state of Mississippi

You have to be at least 74 years old, and white, to have taken part in a congressional election in Mississippi's first district when Congressman Jamie Whitten was not running.

The veteran Democrat has represented the district, which stretches across the north of the US state, since 1941, rarely facing any challenge and, even when there was opposition, only once gaining less than 50 per cent of the vote.

Mr Whitten's retirement from the House of Representatives, at the age of 84, has brought six Republican and three Democratic candidates to fight today primary elections for the right to contest, in November, a seat where the Republican party has high hopes of extending its resurgence in what used to be the solidly Democratic South.

Identification of the Republicans with President Abraham Lincoln and the Reconstruction period after the Civil War of the 1860s is no longer a drawback, and the South's social conservatism aligns closely with the Republican party platform.

"It has historically been a yellow dog Democrat area - they'd rather vote for a yellow dog than for a Republican. With Whitten out of the race, I think we've got a better shot," says Mr Billy Powell, the Republican party's Mississippi state chairman. "Given how the district is changing, it clearly fits the profile of a Republican congressional district," says Professor Leslie Burl McLeure, a political scientist at Jackson State University in the state capital.

Mr Whitten's birthplace is in the hamlet of Cascilla - two groves and a petrol pump besieged by kudzu vine on the edge of the Delta, the flatlands between the Mississippi and Yazoo rivers. His district once included a part of the Delta, but reapportionment moved this mainly black area into another constituency.

Today, the district's centre is Tupelo, a burgeoning business

centre known for its furniture making and as the birthplace of Elvis Presley. It encompasses the university town of Oxford and rapidly growing De Soto County, a dormitory suburb for Memphis, just across the border in Tennessee.

Mr Whitten, too, has changed over the years. Once a rabid segregationist, he became, after blacks had

The Republicans' task is by no means easy, however. They have won the Mississippi governorship and both its senate seats, but made less headway at the local level. They hold none of the state's five congressional districts.

For one thing, in a state where virtually every politician poses as a conservative, it is sometimes hard to distin-

guish one party from the other. "It's kind of hard to tell the Democrats from the Republicans in this district," says Ms Barbara McDonald, a campaign aide to Mr Tim Ford, speaker of the Mississippi legislature and one of the candidates for the Democratic nomination.

"Quite frankly, we only have two Democrats in the Mississippi delegation, Bennie Thompson and Jamie Whitten, and we are about to lose Jamie Whitten. The rest of them are in fact Republicans," says Prof McLeure.

Local penetration for the Republicans is hampered by the Democratic stranglehold

'It has historically been a yellow dog Democrat area - they'd rather vote for a yellow dog than for a Republican. With Whitten out of the race, I think we've got a better shot.'

started, from the late 1960s, to be allowed to vote in Mississippi, one of the most liberal members of the state's congressional delegation - with the exception of Mr Mike Espy, now President Clinton's agriculture secretary, and Mr Bennie Thompson, who have in turn represented the majority black Delta district.

The congressional seniority system gave Mr Whitten great power in Washington. As chairman of the agriculture appropriations sub-committee for more than 40 years, and of the full appropriations committee from 1978-83, he controlled federal government purse strings and made sure that, when they were loosened, his district and his state won their share.

No new member of congress is going to be able to match Mr Whitten's ability to bring home the bacon and it is not certain that voters in the 1990s, more attuned to the federal budget deficit, rank this ability at the top of their list.

"I think they've done a little too much for us already," said Mr Lee Inman, a barber in Calhoun City.

Money from the national Republican party could overcome this problem, as it did in the recent by-election in Kentucky, which the Republicans won. At the November election, however, every promising congressional district will have to compete for national funding with all the other Republican prospects.

That money might well be forthcoming, even so. The Republican party trails by 42 seats to 59 in the 11 south-eastern states of the US, and this region offers some of the party's best chances of eating into the 256:178 Democratic majority in the House of Representatives.

The map shows the Mississippi Delta region, including parts of Mississippi, Tennessee, and Arkansas, with cities like Memphis, Oxford, and Tupelo marked.

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## Reich on a 'third way' to jobs

David Goodhart records the US labour secretary's 'flexible' views

Creating not only more jobs but better jobs, in an increasingly insecure economic environment, was one of the promises that propelled a Democrat into the White House 18 months ago.

This week, Mr Robert Reich, the inquisitive US labour secretary, is touring Europe with a progress report on that promise and advocating a "third way" between the low unemployment/low social protection US model and the high unemployment/high social protection European model.

Mr Reich, with a flair for coming phrases reminiscent of his fellow economist, Professor J K Galbraith, paints a bleak vision of the future unless the gap between the labour market's privileged and its deprived is closed.

He describes how US society is already divided into an elite "over-class" of 15 per cent of the population, increasingly

segregated from the rest of society, and a deprived "under-class" of a similar proportion. This division has been a blessing for the US private security industry, which has more employees than the public police forces.

Squeezed between the over- and under-class is the "anxious" class, what used to be called the middle-class, whose incomes have been static for 30 years and who are increasingly prey to demagogues demanding an end to free trade. "The coming political battle will be for the souls of the anxious class," says Mr Reich.

So how is the Democratic administration doing in this battle? Some 3m mainly private-sector jobs have been created in the past 16 months, an improvement on the previous four years but one that is substantially cyclical in nature.

The "structural" reforms - aimed at raising the quality of the workforce and creating

more good jobs - take longer. There are three basic ideas: to improve the school-to-work transition with better vocational training, to provide more tax credits for low earners, and to turn the social safety net into a lifelong learning "springboard" to re-employment.

"Legislation we now have before Congress will begin to turn our unemployment system into a re-employment system that launches workers into new jobs. Security comes from maintaining a flexible set of skills," says Mr Reich.

He insists that it is not just a matter for the state - rather for government, employers and employees.

What relevance does this have for the Europe Mr Reich is visiting - yesterday in London, today in Paris at the Organisation for Economic Co-operation and Development,

and on Wednesday at the International Labour Organisation conference in Geneva?

Yesterday, at his hosts in London, the left-of-centre Institute for Public Policy Research, he stressed that increased flexibility is not the same as the labour market deregulation favoured by British Conservatives.

The secretary also argued against traditional job subsidies, saying that, in 70 per cent of cases, employers are being subsidised for employees they would have hired without a subsidy.

Mr Reich was also circumspect about whether trade sanctions are the right means to enforce basic labour and human rights standards in the developing world. He does believe it is legitimate to press developing countries on some basic standards but he believes this pressure should be exerted through "a menu" of levers, not just through trade.

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## NEWS: UK

Underlying trend suggests steady and sober recovery under way

## Consumer borrowing slips

By Gillian Tett,  
Economics Staff

UK consumer borrowing slipped back slightly in April, although the underlying trend in consumer lending suggests that the recovery is proceeding on a steady and sober pace, official figures yesterday showed.

Net lending to consumers through finance houses, bank credit cards and non-mortgage building society loans fell to a seasonally adjusted £13m in April, down from £518m the previous month.

The Central Statistical Office pointed out that the data may have been distorted by the timing of Easter, and stressed that the three monthly figures were a better guide to the trend.

These showed that net lending reached record levels in the three months to April, running at £1.28bn. The level of new credit advanced to consumers in that period was also a record, at £15.16bn.

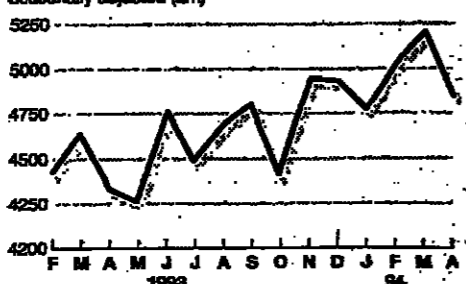
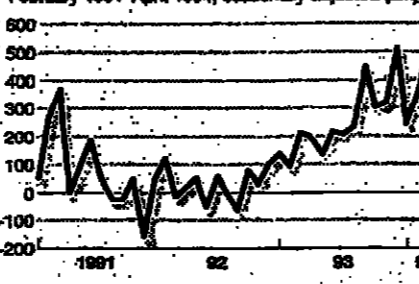
The figures were welcomed by the Treasury, which suggested they provided hints that consumer borrowing had not yet been dented by April's tax rises.

"It is too early to say what the full impact of the tax increases will be. But clearly it is encouraging that the trend remains upwards - this is consistent with an upward trend in consumer spending," a spokesman said.

The figures also received a warm reception among City analysts, who said that April's dip must be viewed in context of an exceptionally strong level of consumer credit in March.

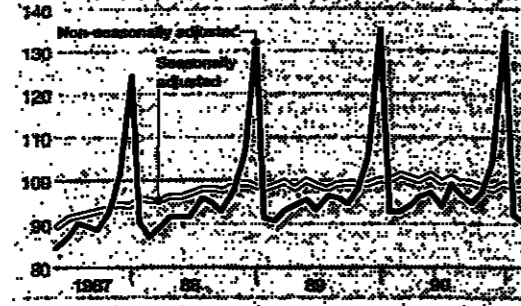
Following a survey by the Finance and Leasing Association

## Credit dips after outstanding month

New credit advanced  
seasonally adjusted (£m)Net lending to consumers  
February 1991-April 1994, seasonally adjusted (£m)

This is why the figures are seasonally adjusted

Retail sales volume index: Mar 1987-Apr 1994



Source: Central Statistical Office

earlier this week, which also reported a small drop in consumer credit in April, the markets had been predicting that April's net lending figure would fall even further to £300m.

Mr Simon Briscoe, UK economist with Warburg said: "This is almost the perfect set of numbers for the government and markets. It shows that the recovery is continuing but not overheating - it would be difficult to argue for a base rate rise on these figures."

But with the economic indicators still painting a slightly

uneven picture of consumer behaviour, analysts warned it was too early to predict the full impact of the April rises.

Although recent retail sales and M0 figures have pointed to strong consumer activity, recent mortgage figures have suggested a slowdown in mortgage lending.

Meanwhile, consumer confidence surveys have pointed to relatively muted levels of confidence - a factor that may be feeding through to the consumer borrowing figures.

The main factor in the drop in April's net lending figure

was a fall in borrowing from finance houses - the form of finance usually used for car purchases and retail store lending for large consumer goods, such as refrigerators.

Car credit, which represents about half of the total finance house lending, fell to £87m in April, its lowest level since last October. But this was partly offset by other data released yesterday, which showed that car sales rebounded sharply in May, after weakening earlier in the year.

Lex, Page 18

## New car sales up 10% on last year

By Kevin Done,  
Motor Industry Correspondent

New car registrations in May were up 10 per cent year-on-year as demand rebounded from the impact of tax increases in April.

Car registrations increased to 150,070 from 136,386 in the same month a year ago, according to figures released yesterday by the Society of Motor Manufacturers and Traders.

The rate of growth in car registrations slowed in April with a year-on-year increase of 4.8 per cent, but sales strengthened again in May in particular in the retail and small business market.

Car registrations of £21,515 in the first five months are 13.3 per cent higher than the £18,916 of the same period a year ago.

Early in the year growth in fleet car sales - to operators of at least 25 cars - outpaced the market. Sales to retail and small business customers in May were up 13.9 per cent year-on-year compared with an increase of 6.2 per cent in fleet car sales.

Mr Ernie Thompson, chief executive of the SMMT, said the motor industry was "pivoted for a better than expected 1994" following the "encouraging" upturn in May. Car-makers were driving the market forward by "recourse to active promotional programmes".

The UK is one of the main growth markets for new car sales in Europe and manufacturers are intensifying their marketing activities with an array of cash rebates, special editions and other incentives.

Mr Paddy Byrne, sales director of Ford of Britain, leader of the UK new car market, said that car registrations in the whole of 1994 were forecast to rise by 10 per cent to 1.58m from 1.43m last year.

The industry is preparing for the traditional surge in car registrations that takes place in August with the change of registration prefix.

In the interim, some observers suggest that the best solution may be to place less emphasis on seasonal adjustment. Mr Eddie George, Bank of England governor, for example, is said by former colleagues to be deeply suspicious of seasonally adjusted numbers. Meanwhile, the Building Society Association does not seasonally adjust its own figures, arguing that it does not have the resources to produce a "footproof system".

But as Mr Jones points out, the wild swings in non-seasonally adjusted figures particularly in areas such as retail sales data, can make it extremely difficult for observers to make sense of non-adjusted figures. "If we didn't seasonally adjust then every analyst would just create their own systems of seasonal adjustment," he insists. The CSO has no intention of abandoning seasonal adjustment - leaving most officials concluding that the most practical solution to any uncertainty may be to increase the size of the statistical health warnings.

## PEOPLE

## Manchester school head to lead UK teacher training

Education secretary John Patten is hoping one of English education's leading traditionalists will run teacher-training in England and Wales. Yesterday, he named his candidate to chair the Teacher Training Authority, a new quango which will start work in September if the education bill currently in the Commons passes into law.

Geoffrey Parker, 61, retires at the end of this term as High Master (headmaster) of Manchester Grammar School, one of the country's most prestigious centres of academic excellence.

The appointment makes sense as Parker is certainly untainted by any suggestion of the educational establishment's alleged "political correctness", which the new quango is intended to stamp out.

Instead, MGS has continued happily to admit that it is elitist, rigorously selecting its boys and then working them very hard. The advent of A-level league tables in the



past few years has confirmed it as one of the top ten independent schools in the UK.

However, Parker, a graduate of both Oxford and Cambridge, denies accusations that he runs an "exam factory", answering to the names "Atherton" and "Crawley", both England's current cricket captain, and his possible successor are recent graduates of Manchester Grammar. The school plays as hard as it works.

Parker's appointment, which is part-time, need not provoke the left-wing establishment, as

he has never taken a high political profile, and has publicly defended links between schools and university education departments.

However, one disgruntled teachers' union official suggested that a career teaching "the brightest sons of the North-West" is no preparation for the job of training young teachers to work effectively in deprived inner-city comprehensives. That task may be rather more difficult.

■ Peter Gummer, chairman of Sbandwick, and Robert Southgate, deputy md of Central Broadcasting, have been appointed members of the ARTS COUNCIL.

■ Derek Lees has been appointed to the new post of head of market testing and contractualisation at the MINISTRY OF DEFENCE, he is seconded from Rolls-Royce.

■ Ian Bradley, a partner in Moores Rowland, has been appointed president of The SOCIETY OF PRACTITIONERS OF INSOLVENCY.

■ Nigel Steward, senior partner of Sherwin Oliver Solicitors, has been appointed chairman of LAWNET.

## Brent picks Dobbie

Sandy Dobbie, 42, has been appointed chief operating officer of Brent International, the speciality chemical maker which cut its dividend recently following a collapse in its profits.

Dobbie's appointment almost completes the boardroom reshuffle at Brent International which began last August when chief executive Stephen Cuthbert, 51, quit following mounting City concern about the company's lacklustre performance.

Keith Hutchings, 46, Brent's former finance director, was confirmed as chief executive in March and Bill Jessup, 42, who used to work at Brent, returned as finance director. Dobbie will start by taking over Dennis Wilby's role heading Brent's industrial chemicals operations and will also be responsible for the printing services side at a later stage. Wilby, 46, has been an executive director of Brent for eight years and his future role has yet to be settled by Brent's new management team.

Dobbie, who has a doctorate in organic chemistry from

Glasgow University, will complement Hutchings's financial background. He started his career as an industrial chemist and switched into production management. He joins Brent from Merck's speciality chemicals subsidiary Kelco International where he has been managing director for almost four years.

The changes in Brent's boardroom are not confined to the executive team. Lord Lane, 69, a former senior partner of chartered accountants BDO Binder Hamlyn, steps down next year after ten years as Brent's chairman and hands over to Alec Daly, 58, an executive director of GKN. Meanwhile, Adrian Barra, managing partner of BDO Binder Hamlyn, joined the board as a non-executive director last month following the retirement of David Swallow and John Jones. Brent plans to add another non-executive director at some stage.

■ Christopher Andrews is resigning from the board of Ladbroke, the leisure and property group, less than five

## Conservatives divided over future of Europe

By James Ekliff  
and David Owen

Mr John Gummer, UK environment secretary, yesterday re-opened the divisions over Europe inside Mr John Major's cabinet by taking a markedly different approach to the prime minister on the future of the European Union.

As Labour sought to highlight what it called the Tories' "great divide" over Europe, Mr Gummer hinted at discontent within the cabinet over Mr Major's recent commitment to a "multi-speed" EU.

With the European polls only two days away, the prime minister has elaborated a "new vision" for Europe, in which member states can decide "in their own way and at their own speed" how much power they give to Brussels.

But Mr Gummer - one of the most pro-European ministers - said: "A number of countries who want to join cannot just join on the basis of total access. What the prime minister is suggesting is that you have got to look at ways in which we enable people to join at a different level."

"What is absolutely clear is that Britain is not going to be at a slower speed than the rest of Europe," he said at the Tories' daily Euro-election news conference. "We are at the heart of Europe and we have no intention of being at a slower speed than the others."

Mr Gummer also appeared to disagree with the prime minister on why flexible decision-making needed to be introduced in the first place.

Mr Major claimed last week that the "multi-speed, multi-track" idea should be an integral part of the EU's development into the next century.

But yesterday, Mr Gummer cast that theme in more modest terms, claiming that it would merely relate to new applications for EU membership from the developing countries of Eastern Europe.

He said: "A number of countries who want to join cannot just join on the basis of total access. What the prime minister is suggesting is that you have got to look at ways in which we enable people to join at a different level."

Labour tried to exploit Tory divisions over Europe, claiming the prime minister was trying to manage irreconcilable division between pro- and anti-Europeans in his party.

"So deeply split is the Conservative party now on Europe that its leader is obliged himself to face both ways on just about every important issue," said Mr Jack Cunningham, shadow foreign secretary.

Sir Russell Johnston, Liberal Democrat Europe spokesman, said the Conservative campaign had been "wholly negative" and had sought to maximise differences.

He was supported by Lord Thomson of Monifieth, Liberal Democrat peer and former EU commissioner, who said it was a "tragedy" that the Tories had turned their back on playing a leading role in the EU "for reasons of purely domestic politics." He argued that the Tories had forfeited the chance of Sir Leon Brittan, the former Conservative cabinet minister, becoming president of the European Commission through their attitude to Europe.

## Britain in brief



## EU to rule on workers' committees

As many as 59 out of the top 100 UK companies could be legally compelled to establish European-level consultative committees for their workers on the continent despite Britain's opt-out from the social chapter of the European Union's Maastricht treaty, the Trades Union Congress says today.

Under the EU's draft directive on information and consultation in transnational companies will require companies employing at least 1,000 workers across other EU states and 100 or more in at least two of those states to negotiate European-wide arrangements if demanded by their employees or their representatives.

The directive is expected to come into law in the second half of this year during the EU's German presidency.

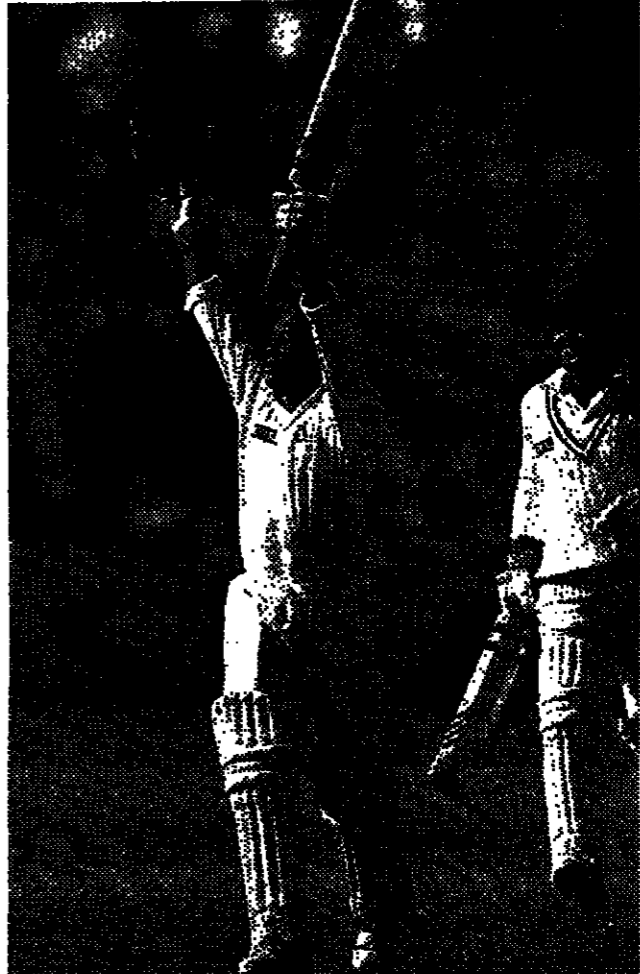
## Backing for wind farms

Friends of the Earth, the environmental group, is calling for more wind farms to be built, despite criticism of their economic value and visual impact.

It calls on planners and wind power developers "to ensure high-quality, publicly-supported wind power projects continue to appear in the countryside." It suggests planning refusals have been influenced by "a sometimes vicious anti-wind power minority."

## Accountancy complaints up

The number of complaints received by the Institute of



Trinidadian batsman Brian Lara yesterday made the highest-ever score in first class cricket when he reached 501 runs for Warwickshire against Durham at Edgbaston. His innings beat the 499 made by Pakistan's Hanif Mohammad for Karachi against Bahawalpur in the 1958-59 season. (Photo: John Pether)

Chartered Accountants in England and Wales has jumped by more than half in the last three years, according to its latest report.

Complaints focused on alleged poor work, slow service and disputes over fees.

## Fingerprint system shortlist

The UK Home Office has shortlisted three computer companies to implement Britain's first comprehensive national automated fingerprint recognition system.

They are IBM, which will be supplied with automated fingerprint recognition technology by Morpho and Martin Marietta; TRW, bidding

## Stock Exchange prices warning

The Stock Exchange must gradually remove restrictions which block immediate publication of the prices at which shares are bought and sold in London, the London International Financial Futures and Options Exchange said yesterday.

The lack of transparency is already inhibiting the development of a robust futures market in London, said Mr Daniel Hudson, chief executive of Life.

## Hugh Harris decides to retire early from Bank of England

The management reorganisation at the Bank of England has prompted Hugh Harris, 53, to seek early retirement from his position as associate director with responsibility for the Bank's own central corporate services.

Harris is the most senior official to decide to quit the Bank since the decision to eliminate a management layer and divide its operations into two broad "wings" responsible respectively for monetary and financial stability. The changes at the Bank have already resulted in the departure of seven other senior officials and the closing down of its international division.

Harris's departure, due later this year, follows a restructuring of the Bank's central services under which the heads of the Bank's personnel and finance divisions and the Bank's secretary will in future report

directly to Rupert Penman, deputy governor.

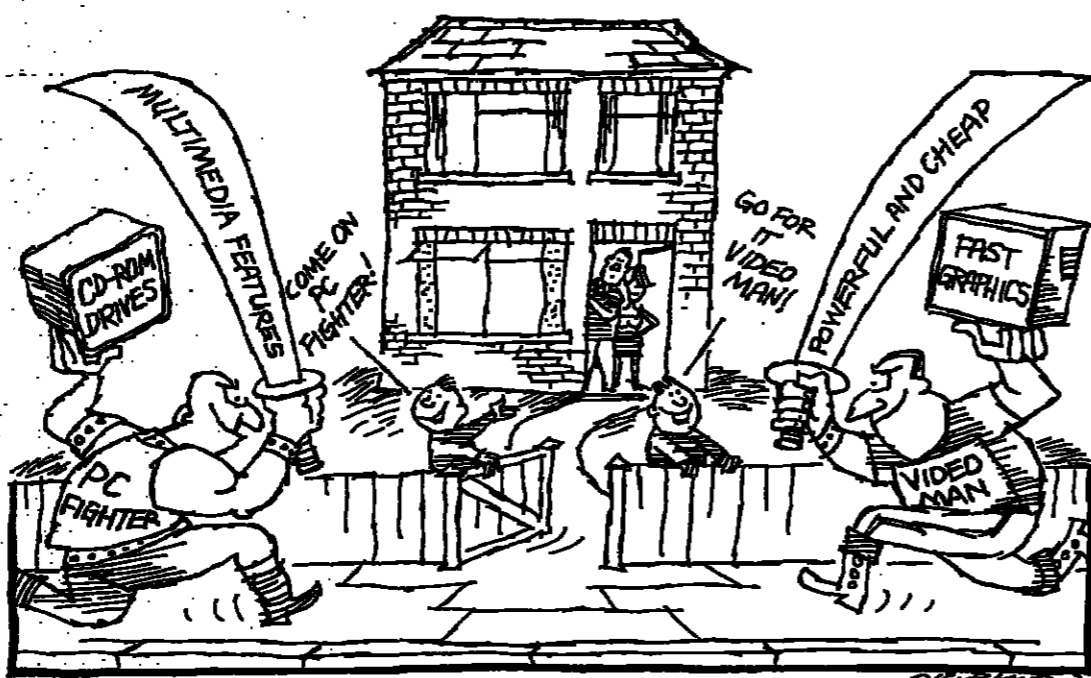
As part of these changes, John Footman, the head of the Bank's information division, will be promoted to secretary with effect from September when the present secretary, Geoff Croughan, retires. Footman will retain responsibility for press and information work.

Gordon Mudgeley, head of management services and the Bank's computer specialist, will expand his empire and be put in charge of finance and resources after the retirement of John Rummis, finance director. Mike Phillips remains Bank auditor and will report to Eddie George, the governor.

A new personnel director will be recruited from outside the Bank. Harris, who joined the bank in 1959, will fill this role on a temporary basis until the position is filled. (See Observer)

The competition for fun and games is heating up as PC makers take on the video giants, reports Tom Foremski

## Battle for house and home



Personal computer manufacturers have always eyed the home market as an El Dorado, a largely untapped gold mine that promises great wealth to those who can find the right combination of technology and price.

Yet the PC industry is littered with sad tales of companies that failed to make it into the home market, or lost huge fortunes in the attempt, such as Coleco with its Adam home computer, the Sinclair ZX80, Commodore and IBM with its IBM PCjr.

But despite the failures, PCs have made remarkable inroads in the US home market. According to the Software Publishers Association, 27 per cent of US households have PCs. Market research company Link Resources predicts that by 1995, almost 50 per cent of US households will own a PC.

"When you look at medium to large business sectors, the markets are already very saturated," explains Abhishek Rane, senior industry analyst at Link Resources. "The home market offers much greater potential for growth than the business market."

While many PC companies have offered low-end models as a way into the home market, Intel, the leading microprocessor manufacturer, has discovered that US consumers are buying large numbers of sophisticated systems.

"Conventional wisdom says that the home PC market is served by a low-end machine," said Paul Olatunji, senior vice-president and general manager of Intel's Microprocessor Products Group. "The facts are different, however. Multimedia education and entertainment applications are key pieces of the home PC marketplace and they require CPU (central processing unit) performance as well as a robust system design."

Intel recently launched a \$100m (\$100 million) marketing campaign to promote its most powerful microprocessor, the Pentium, in systems aimed at the home market. Intel also plans to cut the price of Pentium microprocessors at a faster rate, making Pentium-based PCs more affordable, especially for the Christmas selling period. By the fourth quarter of this year, Intel expects Pentium-based PCs to account for 25 per cent of all PCs sold, with at least half being sold to the home market.

The strength of the home PC market is the mark on the design of future PC systems, an area that used to be driven by the demands of the business market. For example, CD-ROM drives and sound cards are becoming standard equipment on PCs, but there are few business applications that require them. Windows 3.1, the next big upgrade to Microsoft's popular Win-

dows user interface, will be able to run games and educational software applications.

Software applications have always been the key to hardware sales. In the same way that financial spreadsheet software helped boost sales of business PC systems, games promise to help PC companies in their efforts to enter more homes.

Market research shows that children are a key factor in determining PC purchases. This means that the PC has to adopt some features that will appeal to children who are already familiar with video game player machines.

But the competition is formidable. While PCs have managed to enter markets once dominated by workstations, minicomputers and mainframes on the basis of high performance and low price, video game players are already very cheap. The next generation of video game players, due in 1995 from Nintendo and Sega, will feature fast graphics and powerful microprocessors that will

rival high-end workstations at a fraction of the price.

Jeff Camp, multimedia systems product manager at Microsoft, said: "The home PC market is growing quickly but we have had an earful from customers complaining about the lack of fast games for Windows systems. We are now able to provide games that have the fast graphics that customers want."

Developing games for PC systems has many attractions for video game companies. There is an installed base of about 40m Windows-based PC systems and the distribution of games for PCs is cheaper. Nintendo and Sega charge video game developers about \$20 for each video game cartridge and they maintain strict control over the type of games that can be played on their systems. In contrast, there is no royalty to pay for distributing PC-based games and there are no restrictions on the development of games.

PC owners are typically more affluent and can afford to buy more

games. The Software Publishers Association found that half of all US households with PCs have an annual income of at least \$60,000.

"PC versions of major arcade game and film hits are the fastest growing segment of our business and of the game industry overall," says Henry Kaplan, chairman and chief executive officer of New York-based game developer Hi Tech Expressions. "Industry-wide, this segment of the market accounted for about \$900m in sales in 1993 and we expect it to grow to \$1.5m by the end of this year."

While Microsoft is happy to encourage third-party game developers, it is not ignoring this fast growing market itself. The company has expanded its consumer products division and launched its Home brand which includes low-end versions of its business software such as word processing and spreadsheet software plus new entertainment software.

Although Microsoft offers fast, graphics-based games such as those

found in its Arcade package, Tony Garcia, manager of the entertainment division at Microsoft, explains that most of the games are more adult oriented. "Games such as Flight Simulator and our forthcoming Space Simulator offer more depth which appeals more to adults."

Software companies such as Utah-based WordPerfect have also targeted the home market. Earlier this year, WordPerfect introduced its Main Street software line, a collection of word processor, spreadsheet, games and educational software. The company also agreed a deal with Walt Disney that will allow it to use Disney characters to market its software in Europe.

Among PC manufacturers, Compaq Computer has been successful in reaching the home market with its Presario models. Its success recently pushed the company to the top in US sales for the first quarter of 1994, ahead of 1993 market leaders IBM and Apple Computer.

For now, PCs and video game-playing machines can co-exist, with most households that have PCs also owning game machines. The battle for the home market will be waged with the coming integration of computers and TVs in the form of set-top TV boxes. These will be powerful computing devices, capable of running business as well as entertainment software, and acting as gateways to the much heralded "information superhighways".

PC firms such as IBM, Hewlett-Packard and Apple Computer are developing their own set-top TV systems. These companies have an advantage in that there is a huge base of software applications, not just games, that will run on their platforms.

However, video game machine makers will not give up their huge installed base without a fight. Nintendo, Sega and Sony are developing powerful set-top TV systems. Nintendo has teamed with workstation manufacturer Silicon Graphics to develop a set-top TV system that will incorporate many of the features of a high-end 3-D graphics workstation yet retail for less than \$300.

Nintendo, Sega and Sony have an advantage in that they understand the consumer electronics market better than their PC rivals. They also have more widely recognised brand names and well-established distribution channels.

Whichever technology wins, it is clear that the competition for the home market will result in larger numbers of computers in the home, allowing parents to work from home, children to run educational and entertainment programs and, eventually, to provide a means of managing huge data flows from future "information superhighways".

## Old bugs learn new tricks

Oil à l'orange is a tasty dish for some, says Ian Hamilton Fazey

Edward Billington, the Liverpool sugar merchant and foods group, appears to have found a way to make waste oils, tars and other unwanted hydrocarbon stains and contaminants more palatable - not to humans but to bacteria.

The development offers a more environmentally friendly way of cleaning grime-prone surfaces like garage, workshop or factory floors, or petrol station forecourts. It also works on contaminated ground, where hydrocarbon waste has soaked into soil, giving an alternative to digging out the earth and dumping it.

Using bugs to devour hydrocarbons has been practised in sewage plants for decades but problems arise when the waste comes in an emulsion or suspension after the oils have been dissolved in detergents.

Bacteria are put off by the taste of the detergent and the digestion process becomes inefficient. Most producers of effluents tend to accept the situation and pay their local water authority extra to compensate for the problem.

The principal ingredient of Billington's process is a natural solvent called Pronatur, made from waste orange peel. Billington unveiled it last year after it bought the small company which had developed the solvent. It has since invested £200,000 in a new factory in Bootle - twice the sum planned originally because sales of the solvent are growing faster than expected.

One of the solvent's properties is that it is immiscible in water. This means that if it is used to clean oil-stained concrete, it can be washed down the drain with water and easily separated from the water in interceptor pots.

In porous material like shingle or soil, a spray of water helps the solvent and bacteria soak in and do their work. In either case - solid surfaces or porous media - the final chemical products are carbon dioxide and water.

The solvent smells like oranges and seems to appeal to oil-devouring bugs. The system has been demonstrated during trial cleaning of stained concrete and railway track at Tyseley depot in Birmingham.

The trials were evaluated independently by Derby University's Environmental Impact Analysis Group and seem to support Billington's claims for its product and systems.

When the trials started, the chemical oxygen demand (COD) of Tyseley's effluent was 12,144 mg/l, more than 20 times above the permitted level. By spraying with Pronatur and water and then adding bacteria to dissolve the waste hydrocarbons, the figure dropped to 4,296 mg/l after a week and 88 mg/l after three weeks.

The hydrocarbon content of the effluent went from 470 mg/l to 64 mg/l in the period. Glycol readings plunged from 7,610 mg/l to less than 1 mg/l, while the pH moved from a highly alkaline value of 12 to 6.82 - barely on the acidic side of neutrality.

"We are now selling do-it-yourself kits to industry, plus training, so companies can carry out this cleaning as a simple, cheap, maintenance routine," says John Hasset, Billington's chief executive. Richard Monbiot, technical director of Pronatur Products, a Billington subsidiary, says the aim will be to undercut cleaning contractors, where the main cost is labour, and obviate the need to pay extra to water authorities for efficient treatment because consent levels cannot be attained.

In the Tyseley railway depot case, effluent charges had been £20,000 over six months. The new system cost £10,000 to get everything thoroughly clean, while continuing maintenance will be a fraction of that.

However, while Pronatur is gaining ground among big companies, Monbiot says medium-sized and smaller companies are sticking to trichlorethane, its entrenched rival. But Billington believes that companies may be forced to change by law, as environmental controls tighten over synthetic chemical solvents.

"Big companies are greener and are more likely to act earlier," Hasset says. Pronatur has attracted interest in the US and Europe, where distributors are in place, and also in Japan.

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**State Holding Company**

**MODIFICATION OF INVITATION FOR TENDER**

The State Holding Company (hereinafter as Caller of SHC) informs the interested parties with the assistance of Daiwa-MKB (Hungary) Investment and Securities Co. Ltd. (hereinafter as Adviser), that exercising its right included in the 3rd point of Chapter VIII of the Tender Conditions,

the deadline of submission of the bids are modified

in case of the one-round public tender announced for the purchase of HUF 453,570,000 nominal value state-owned shares of

**Zsolnay Porcelain Factory Co. Ltd.**

representing 84,285% of the share capital.

The modified time period available for submitting the bids:

**August 1, 1994 from 9.00 am to 12.00 noon**

Place of submitting the bids:

**Daiwa-MKB (Hungary) Investment and Securities Co. Ltd.**

**East-West Business Centre**

**1088 Budapest**

**Rákóczi út 1-3. 111/38.**

The bids will be opened by the opening committee formed by the representatives of the State Holding Company and the Adviser in the presence of a Notary Public at the headquarters of the Adviser at 2.00 pm on August 1, 1994.

The other regulations of the Tender Conditions are unchanged.

**INVEST IN HUNGARY • A SAFE EXPANSION**

**STATE PROPERTY AGENCY**

**CALL FOR TENDERS**

In cooperation with Daiwa-MKB (Hungary) Investment and Securities Co. Ltd. (further referred to as: the Consultant), the State Property Agency hereby issues a public call for tenders

for the sale of the state-owned shares of

**Kossuth Nyomda Rt. (Kossuth Printing Press PLC).**

The Company's registered capital is HUF 697,000,000, with a share package at a value of 50%-1 vote being offered for sale.

The Company's capital reserves: HUF 559,112,000.

Privatisation costs, the extent of which amounts to HUF 20,000,000, may only be settled in cash.

Conditions of participation in the tender:

depositing HUF 8,000,000 retention money

signing a statement of confidentiality with respect to information provided

Deadline for submitting offers: Wednesday, August 17, 1994 between 12.00 - 14.00 hours in the presence of notary public.

Offers must be submitted to: Állami Vagyongnyomda Rt. (State Property Agency), H-1133 Budapest, Pozsonyi út 58. floor VIII, room No. 804.

Offers must be delivered to the above address in 3 copies, specifically marking the original, in sealed envelopes without indicating the sender.

The tender must unambiguously indicate the fact that the offer contained therein shall be valid for 90 calendar days after the due date for submitting tenders.

After opening the tender-envelopes, the SPA may request written or oral supplementation.

The SPA maintains the right to call a tender as having been unsuccessful.

Submitting tenders shall be subject to purchasing the detailed tender documentation containing also the detailed call for bids for HUF 10,000, + VAT, at the headquarters of Daiwa-MKB Rt. (1088 Budapest, Rákóczi út 1-3, floor III, room No. 38), against signature of the confidentiality statement.

For further information, please contact:

Sándor Faragó (senior advisor, SPA) Tel: (01) 269 8600

Károly Székely (general director, Kossuth Nyomda Rt.) Tel: (01) 157 0450, and Daiwa-MKB Rt, Tel: (01) 266 0361

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## FINANCIAL TIMES SURVEY

■ Carlsberg's global reach - from China to the UK Page III

# DANISH FOOD INDUSTRY

■ How rennet led to biotechnology Page IV

Tuesday June 7 1994

## A healthy appetite for world markets

The food industry accounts for a quarter of exports and has been hit by the recent Gatt deal. But there could be new opportunities, writes Hilary Barnes

An English schoolgirl who was asked in the 1980s what she associated with Denmark, replied: "pig, pig, bacon, pig". This may not be an uncommon image, but there is much more both to modern Denmark and to its food industry.

Though it rears more than 20m pigs a year and still provides the best-selling imported bacon in Britain, Denmark, with only 5m people, produces enough food for three times that number. It also has a large share of world markets in other areas apart from pigmeat where it has specialised, such as cheese and fresh and frozen fish.

The food industry provides between 12 and 18 per cent of Denmark's domestic employment, (depending on the definition used), and accounts for about 25 per cent of the country's merchandise exports.

Denmark is the world's fifth-largest exporter of food products, according to a report produced for the Ministry for Industry last year, and a 16 per cent increase in output over the past 10 years has enabled it to maintain its share of world markets.

Manufacturing industry long ago overtook agriculture as the country's main export industry, and now provides about 70 per cent of the country's merchandise exports, but agriculture and fisheries still account for about 5 per cent of total employment and roughly the same share of total production.

The rise of the primary food industries - pigmeat, dairy products and fish - has been accompanied, too, by the development of companies in associated industries, many of them world leaders. These include

Novo Nordisk, Christian Hansen Group and Grindsted Products, producers of food ingredients such as enzymes, emulsifiers, stabilisers and flavourings; Foss Electric and Radiometer in instrumentation; and APV Danish Turnkey Dairies and Niro Atomiser in food processing machinery.

Carlsberg has, of course, established itself, too, as a leading international brewing company. Danisco, the sugar, distilling, frozen vegetables and packaging group, is less well-known internationally but has become one of the largest European producers of beet sugar through acquisitions in Sweden and Germany, and is one of the country's largest listed industrial corporations.

The food and food technology industries, because of their vital importance to the health

of the quality of its products along the route from the farm to the table.

The strong position which the country holds in the food industry goes back a long way. Denmark was one of a few countries in Europe which did not react to the challenge of cheap American corn in the 1870s by raising import barriers. Instead, its farmers had to find alternative sources of income, and as a result, developed a lucrative market exporting butter, eggs and bacon to the UK.

The country's food and food technology industry has never looked back. Since entry into the then European Community further support for Denmark's primary agricultural industry has come from the common agricultural policy, which subsidises exports to non-member countries.

Yet, a threat of sorts does now hang over the sector in the shape of the recent Gatt agreement, which calls for a reduction of 34 per cent in the volume of exports of subsidised products.

Mr Bjorn Westh, minister for agriculture, sees the Gatt agreement as a challenge, which opens up opportunities to win new markets, and he is calling for an attacking policy on the part of Europe to make the best of these opportunities.

Mr H.O.A. Kjeldsen, president of the Agricultural Council (an umbrella organisation for almost all the Danish farmers' organisations) shares the minister's view, although, as he says, his members "face a harsh period of adaptation".

The rest of Europe has a special reason to be interested in the Danish food industry and its ability to adapt. A large



Some of these Danish Crown pigs may be destined for Korean dinner tables (see story on page IV)

share of Denmark's agricultural exports goes to non-European Union countries, especially cheese, a product in which Iran is the largest export market by tonnage. The Middle East is an important market for butter and milk powder and Japan has overtaken the UK as the most important market for Danish pigmeat (by value, though not by tonnage).

As Mr Westh points out, policies which allow Denmark to continue to export to third countries should be of interest to other European countries. Otherwise, the products concerned will be offloaded on to the European market, causing serious downward pressure on prices.

He wants the European Union to consider bringing the European corn price down to the world market level. This

would eliminate the subsidy element in the production of pigmeat and poultry, which are fed on corn products. No quantitative restrictions, would as a result need to be imposed under the terms of Gatt agreement, on exports.

Mr Kjeldsen also wants Europe to introduce B-quotas for milk production. The B-quota would be priced at the world market price and could be used to help Denmark to maintain its exports of cheese, butter, and powdered milk exports outside Europe.

Prospects for the primary food industry clearly depend on access to world markets, but Denmark has one important advantage. Pigmeat, the most important agricultural export product, is not directly supported under the common agricultural policy and its exports are therefore not

threatened by the Gatt agreement in the same way as dairy products and beef.

Though pessimists focus on the food surplus in European countries in considering the future of the agricultural food industry, others, such as Mr Erik Juul Jorgensen, head of the private Institute for Food Studies and Agro-industrial Development, in Copenhagen, focus on the global market.

They predict a strong increase in demand for food, and see few limits to the potential for Danish production and exports, given a satisfactory world trading regime. In a 1992 report, Mr Juul Jorgensen argued that Denmark could double production by its agricultural, food processing and agro-technical industries between 1990 and 2001.

The pig farmers have shown the way. Between 1989 and

1993, pig production increased from 15.5m to more than 20m animals per year, or by 30 per cent. Pigmeat prices over the past year have been so low, however, that no further increase in production is expected.

Mr Bent Sloth, chairman of the Association of Danish Slaughterhouses and himself a pig producer, predicts that pig output will not rise from the present level for several years. However, Mr Westh believes production may well reach 25m by 2000, and Mr Juul Jorgensen sees no reason why it should not reach 30m during the first decade of the next century.

A feature of the agricultural sector is the domination by the co-operative movement. Two co-operative dairies, MD Foods and Klover Milk, account for 90 per cent of the milk produced on farms. Five slaughterhouse

groups account for almost all the pig production. MD Foods and the two largest slaughterhouse groups, Danish Crown and Vestjyske Slagterier (West Jutland Slaughterers) are among the largest companies in their industries in Europe.

The co-operatives, which are governed by a democratic system of one man, one vote, provide the dairies and slaughterhouses with a unique degree of vertical integration from farmer through processing to export sales.

One of the disadvantages of the co-operative system according to its critics, is its inability to raise equity capital from external sources. The co-operatives have found a way round this limitation, however, through the establishment of MD Foods International in the dairy sector, and Tulip International in the meat sector.

MD Foods, which has invested heavily in the UK dairy industry, and Tulip, which is the processing arm of Danish Crown, (producing such items as minced meat and ham, as opposed to fresh and frozen cuts), are partly financed by equity from Danish institutional investors.

Critics of the co-operatives also say the industry has been slow in embarking on production of more highly processed foods, such as convenience products and convenience foods, but Mr Kjeldsen rejects that charge. "Most of our exports are high-quality, processed raw products. We obtain attractive prices, for example, for our pigmeat exports to Japan, because we make products with a uniform high quality. We would earn less if we went into highly processed convenience foods and sold them under our brand names, a business that requires an enormous investment."

Although the farmers are enduring tough times at the moment, Mr Kjeldsen is not discouraged. "When young people ask me if there is a future in farming, my answer is: Yes. There will always be problems, but there are problems whatever sector you are in. A well-educated farmer has a good future in Denmark," he says confidently.

WORLD EXPORTS	
Denmark's share	
Pigmeat	26%
Frozen fish	13%
Fresh fish	12%
Milk, cream	12%
Cheese	10%
Bakery products	10%
Total world exports	0.85%

Source: Alan Miller and Heidi Pich, *Industrial Structure, Lund 1993*

of the Danish economy, have been pinpointed by the government as one of the sectors on which Denmark's future growth and prosperity will depend.

For this reason the government is helping to finance a substantial programme of research, which, it is hoped, will enable the country to lift

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## DANISH FOOD INDUSTRY II

Bjorn Westh, the minister of agriculture, talks to Hilary Barnes

## Coping with the challenge of Gatt

Denmark has a position of strength in food production which offers opportunities for development, says Mr Bjorn Westh, the minister of agriculture who is sometimes tipped to become his country's next EU Commissioner.

"We do not think there is anything old-fashioned about producing food," he declares in an interview. "The food industry gives rise to 25 per cent of all employment in Danish industry. It brings in about DKr55bn (£5.7bn) a year in export revenues, and export revenues are required to keep the welfare state going. If we want to develop the welfare state we must have jobs in industries which earn foreign currency, and in the food industry we have a position of strength that we must utilise."

This might seem a bold com-

mitment at a time when European agriculture is being forced by reforms of the common agricultural policy and the Gatt deal to curb production and exports. Mr Westh does not dispute the fact that the future of Danish agriculture and its related export industries is dependent on how the European Union reacts to the Gatt.

On the other hand, he does not have much time for calculations which show that Danish farm incomes will be cut by DKr2bn or so - 7 or 8 per cent of gross factor income - by Gatt. "They don't take into account the new market opportunities, so they are unhelpful, static calculations. The world does not stand still, and Denmark is not standing still."

"On our part, we want the European Council, in connection with this year's price negotiations, to approve a declaration calling on the Commission to work out a strategy by which the European countries can utilise the new market opportunities which the Gatt will provide."

Mr Westh is referring to the obligation of Gatt signatories to allow at least 3 per cent of their food supplies to be

imported, rising to 5 per cent after five years. "We see Gatt as a challenge, and we must go on the offensive. We must ensure that we are active and that it is not the Americans,

Holland "has twice the animals and three times the people in an area a third of Denmark's size"

the New Zealanders or the Cairns Group countries who run away with everything," he says.

As the Gatt calls for a reduction in exports of subsidised products, "we want to put the Commission to work to see if we cannot abolish or reduce export subsidies."

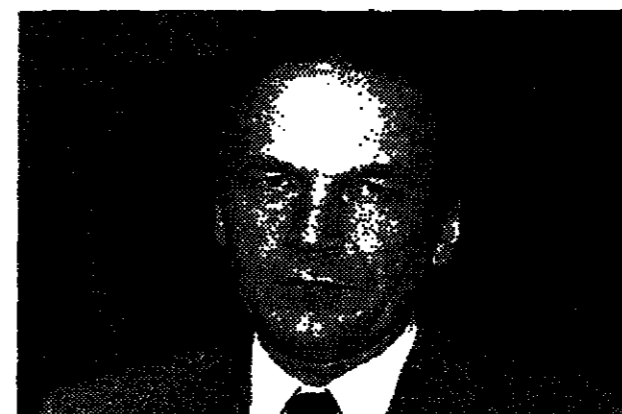
The EU corn price is still 10-15 per cent above the world market price. If we can bring it down to the world market price, corn exports would not be subject to export subsidies, and neither would products based on corn, such as pigmeat and poultry. A side-effect of this would be that we would no longer need obligatory set-aside policies."

This view finds support in the UK and France, he says, but other EU countries will resist it. However, he points

out that if the EU does not succeed in adopting policies which allow exports to third (ie, non-EU) countries, Denmark will have to sell large quantities of dairy and pigmeat products in Europe, with a painful impact on prices. "I think this argument will mean that some countries will begin to listen to what we are saying."

As Mr Westh sees it, Danish food exports will not compete with exports from developing countries, at least not directly. "We shall compete in markets where there are consumers who want high quality products and have the means to pay, especially markets in south-east Asia, such as Japan, Korea, Singapore, some south American markets and the Nordic market."

"Danish agriculture will try



Bjorn Westh: the Commission should "cut or abolish export subsidies"

to live up to this strategy through an aggressive, broad quality policy, from conditions on the farm through processing to transport ... Quality is having control over environmental problems, over the surroundings in which animals live, and not only the product itself."

As an example, he points out that a major effort is being made at the moment to elim-

nate salmonella from infecting pigs on the farm or at any stage of processing.

Mr Westh is on the whole an optimist. Last year Danish pig production passed 20m for the first time. "I don't see why we shouldn't produce 25m pigs by the year 2000, and perhaps more milk than we do today as well," he says.

"If I am relatively optimistic it is also because when you

look around the world you see the environmental issues coming into focus. We have a good chance of handling these problems successfully, not only because we started to tackle them early on but because we have a structure which makes the problems easier to tackle. You only have to look at a big food producer like Holland, which has twice as many animals and three times as many people in an area a third the size of Denmark."

Legislation which restricts the number of farms that one farmer may own or lease, and regulates the number of animals per hectare of land, will prevent the establishment of gigantic pig farms, however.

"We do not want individual units to be too big. There are veterinary and health dangers in very big units. In return we have told the farmers that they can own and lease more units."

"This goes together with our quality approach. We do not want a policy which encourages the use of medicines, and we want the farmers to be able to keep an eye on the health of the animals," he says.

Tony Jackson on Danisco, a big fish in its pond

## The skill not to turn its back on the basics

The trouble with the Danish food industry, according to one of its most senior executives, is that its output is just too basic. Take meat and animal products, says Mr Elvar Vinum, chief financial officer of Danisco, the food group. "We're still selling raw materials too much. We have to do more to develop them."

Since Danisco makes much of its money from the basic activities as refining sugar beet and freezing peas, it might seem open to the same criticism. Not at all, says Mr Vinum. There is a lot of skill in freezing and distributing vegetables to the standards required by international food companies such as Unilever and Nestlé. As for sugar, the company has more than 120 years of experience. It is a business in which efficiency is all: and Danisco, Mr Vinum says, is one of the two or three most efficient sugar refiners in Europe.

Danisco was formed at the start of 1989 through the merger of three publicly quoted Danish companies: Danish Sugar (much the biggest of the three), Danish Distillers - almost the monopoly Danish producer of spirits, especially aquavit - and Danisco itself, a maker of food ingredients. The motive, says Mr Vinum, was simply one of growth. Taken together, the three companies would have "more momentum".

The rationale of the new group was that it should be in "food-related" industries. This involved a lot of pruning: some 43 per cent of the original group by turnover, chiefly in engineering, has been got rid of. At the same time, the group has been expanding in

packaging, both in corrugated board in the UK and Denmark and in flexible plastic packaging around the world.

This apparently paradoxical broadening of the portfolio is defended by Mr Vinum. "We've been in packaging for a very long time," he says. "It's a business we felt we knew something about." The packaging is mostly for food products, and the great bulk of it is for outside customers. It is not, in other words, an old-fashioned case of vertical integration. "We're not in packaging to provide it for our own products. It's a business on its own."

Although unusually large for a Danish company - comfortably among the top 10 quoted companies in market value - Danisco counts only as a medium-sized food group in global terms. In 1992-93 its sales were DKr13bn (£1.5bn), and its market value is about DKr10.7bn (£1.1bn). However, it is plainly ambitious. Since the merger, and not counting the financial year 1993-94 just ended, it has spent DKr5.5bn on acquisitions and the same amount again in capital expenditure.

The largest part of the investment, says Mr Vinum, has been in sugar. Besides being the Danish monopoly producer of beet sugar, Danisco paid DKr2.2bn in 1992 for its opposite number in Sweden, making it the fourth biggest producer in Europe. Also two years ago, it bought eight small sugar refineries in Germany and is just finishing the task of combining them into one European-scale plant, at a total cost of a further DKr1bn. Acquisitions apart, a lot of the expenditure has gone on

the food ingredients subsidiary Grindsted, which grew out of the original Danisco. This is a truly global business, with new capacity recently installed in Denmark, the US, Mexico, Chile and Malaysia. Grindsted, says Mr Vinum, is

EMPLOYMENT	
Denmark: 1992 figures	
Total	1,918,000
Agriculture, fisheries	118,000
Manufacturing	388,000
Food processing	61,000
(Abattoirs, meat processing)	27,000
(Milk processing)	8,000
Services to industry, food processing	51,000
Investment	
Total food-related	248,000
In buildings and machinery for agricultural sector	
Source: Danish Farmers' Union	

one area where "we can see a lot of growth around the world".

The trick, he says, is to work very closely with the customers, the food manufacturers. "For instance, we are one of the world's biggest producers of pectin" (used in making marmalade). "That's a very specialised field, where the customer wants to be absolutely sure the pectin produces his marmalade every time."

Another Danisco subsidiary, Tafel, is itself a marmalade producer. "It took Grindsted quite a long time to break into that company with their pectin after the merger. The customers know exactly what they want, and to change may be very difficult."

Yet another area still offering scope for expansion is packaging: both in northern

Europe - taken to include the UK and in the US. Danisco, says Mr Vinum, is particularly interested in the US because the sale of its engineering businesses reduced its activities there, so that almost its only activity now is food ingredients. "We're open to acquisitions," he says.

The one part of the business which looks decidedly unglamorous at present is distilling. Eighteen months ago, in an event which has distinct echoes in the UK at present, the Danish government cut the duty on beer by some 40 per cent to protect local brewers from German imports. Duty on wine was cut as well, but not on spirits. As a result, Danisco complains bitterly, alcohol drunk through the medium of its products is taxed at six times the rate of that on beer or wine.

Given that Denmark has the highest duty on spirits in the European Union, this was predictably damaging. Last year, Danish consumption of spirits fell 11 per cent, while the markets for beer and wine went up 2 per cent and 9 per cent respectively. The result, as Danisco points out, is to distort competition. Whether the government is prepared to forgo yet more revenue to set that right is not yet clear.

Either way, the company's attention is devoted much more to the international arena these days. At the start of this year, it undertook an international offering of DKr1.15bn worth of convertible bonds, with around 70 per cent taken up by foreign investors. The goal, Mr Vinum says, is to get foreign ownership of the company's equity up to around 20-25 per cent. At present it is half that.

The company, in other words, is showing signs of outgrowing its native financial system. As it expands on the world stage, it seems not impossible that it will one day attract the unwelcome attentions of one of the real giants of the food industry. So far, however, it remains a big fish in a respectably-sized Scandinavian pond.

## Profile: WOLFKING

## Market leader in meat machinery

Whenever you eat fast food, the chances are high that the ground meat in the burger, the chicken nuggets in the salad or the salami slices on the pizza were churned out by machinery from a small Danish company, Wolfking.

With few exceptions, the Danish companies which manufacture machinery for the food processing industry are small, but they often have a substantial share of the world market in their special area.

Wolfking is typical. At its headquarters in the town of Slagelse, on Sjælland, it employs about 200 people and has a turnover of about DKr160m (£16.5m), but it is nevertheless a market leader in its field. About 85 per cent of its production is exported. Its biggest market, where it employs a sales and service staff of 25, is the US, followed by the UK, Germany and France.

The global range of its exports, which go to China, Japan, Korea, and South America as well as the US and Europe, has helped Wolfking

maintain its growth despite downturns in individual national or regional markets.

Started as a family business in 1949, Wolfking has been a member of the Danish BJI Group since 1972. BJI is an unlisted private company with a turnover of about DKr1bn, mainly from production of raw materials for the European pet-food industry.

Since 1949, Wolfking's employment has more than doubled to more than 200 in Slagelse itself. In addition, it has sales and service companies in the US, the UK and Germany. It works through agents in another 30 countries or so. Two years ago it bought a Dutch company, Belam, which concentrates on ham production systems, with 50 employees. Altogether, the Wolfking companies have a turnover of about DKr200m.

Wolfking produces all the machinery which is required by butchers, supermarkets and mass-producers of minced-meat products or hams from the point at which raw materials

are delivered to the final handling and portioning of the finished product (but not packaging machinery) - ranging through simple machines to semi- and fully-automated systems, including grinders, mixers, emulsifiers, injectors, tenderisers, massagers, pumps and transport equipment", according to its catalogue.

The acquisition of Belam is an indication of things to come. Other companies which have high-quality products and product programmes are being sought to complement Wolfking's existing business.

Most of Wolfking's machinery is for the meat industry, but not all. The company also manufactures food pelleting systems for the fish-farming industry, machines for making processed cheese, and plant to produce fish-fodder for mink (which is no accident: Denmark is the world's largest producer of mink skins). Some of its equipment also goes to the pharmaceutical and chemical industries, bakeries, and producers of chocolate and sweets.

Where Wolfking has the edge over its international competitors, says Mr Jacob Dilling-Hansen, marketing manager, is in its supply of complete, fully-automated processing lines. "No one else makes such complete machinery systems as we do."

As a supplier of automated production systems, says Mr Dilling-Hansen, "we are cleaning up the market. Our share of the world market for systems of this kind is about 75 per cent."

Wolfking gained its first ref-

erence for this kind of system by delivering the equipment for a big plant operated by Tulip International, the Danish company, for minced-meat products at Vejle, Jutland. The plant was installed at the end of the 1980s. Since then, it has delivered complete systems to Germany, Spain, Norway and the UK, where one of its production lines turns out 75 tonnes an hour, 24 hours a day, six days a week for Spillers, the petfood group, near Glasgow.

The development of these large-scale systems has taken Wolfking into the era of computer-aided design and manufacturing and computer-integrated manufacturing systems. All project development, engineering and design is done on three-dimensional CAD network. Plant control software is developed in-house.

When machinery or complete systems are delivered, the same engineers who worked on production are sent to the customer to undertake installation and start-up, says Mr Dilling-Hansen.

One of the company's main pre-occupations is to ensure that its machinery meets the requirements of the European Union's machinery directive, which comes into force in 1995. The directive concerns hygiene and safety. "We expect that all our machinery will receive the 'CE' stamp by then," says Mr Dilling-Hansen, "and we think that many of our competitors will have trouble meeting the deadline."

Hilary Barnes

## ADVICE TO FARMERS

## A model for eastern Europe

With 20m pigs in a country with only 5m people, it is clear that the focus of Danish agriculture must be on finding markets elsewhere. Farmers are increasingly geared towards producing for the export trade.

But it is not just pork and milk that are exported from Denmark; its farming advisory service has gained such a prominent reputation overseas that advisers are now exporting the "Danish model".

The Danish Agricultural Advisory Service is owned by producers and run in a similar way to the co-operatives which dominate farm output in Denmark.

Local advisers must answer to a board of farmers which also dictates priorities for research. This structure helps information to be disseminated as quickly as possible to a range of farmers.

The advisory service runs 95 local centres at a cost of DKr1.1bn (£112m) a year: the government provides some of the funds but most is put up by

farmers themselves. The organisation runs a national headquarters at Skøjby near Aarhus in Jutland, providing a resource centre for local advisers with a budget of DKr238m. It also helps to channel requests to research bodies.

The system has been so successful in Denmark that its advisers are helping set up similar operations in eastern Europe. Danish agricultural advisers are currently working in Poland, and the three Baltic countries: Lithuania, Latvia and Estonia.

One of the advisers points to the difficulties of setting up a system which, in essence, is run by farmers on the ground in countries that have been used to receiving orders from the top. "We try to stress that we are supporting farming in the same way that fertilisers are: we are just one input," says Mr Niels Gert Nielsen, an international adviser.

The structure of the Danish farming industry, which

comprises some 70,000 mainly family farmers, makes it important that advice is offered at a local level and that the process involves as many producers as possible.

With the current emphasis

on reform of the common agricultural policy in the European Union, and all that involves in price cuts, farmers need all the help they can get.

Deborah Hargreaves

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## DANISH FOOD INDUSTRY III

Anyone who believes Danish business is parochial should look carefully at Carlsberg. Around the world, brewing is for the most part a parochial business: perhaps unsurprisingly, since a product consisting almost wholly of water is expensive to ship.

Carlsberg, however, sells less than 20 per cent of its beer in its home market. With the exception of Heineken of Holland - which Carlsberg sees as its main rival - no other big brewer has the same international reach.

In theory, at least, this is a very enviable position to be in. Rather like the tobacco industry, brewing in the western world has seen its prospects transformed in recent years by the opening up of vast new markets in China and eastern Europe. Unlike the tobacco companies, most of the world's big brewers are scarcely equipped to take advantage of the fact.

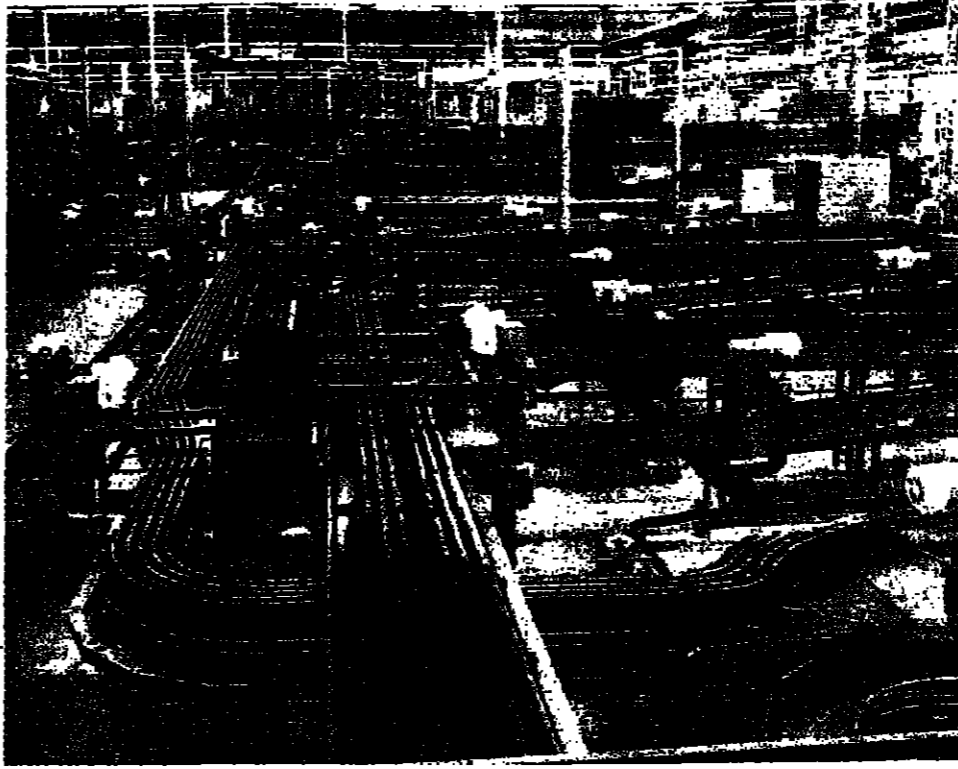
Carlsberg, by contrast, has been outward looking since its beginnings, if only because the smallness of its home market forced it to be. Founded in 1847, it first shipped beer to England in 1880. By the turn of the century, as Carlsberg executives will tell you today, it was putting up advertising posters in China.

The attraction of China is no less powerful today. "By the turn of the century," says Mr Michael Iuul, Carlsberg's head of international operations, "China will probably be the biggest [beer] market in the world: bigger than the US." At present, he puts the Chinese market at 70-80m barrels a year. His forecast is for 130m barrels or more.

As with tobacco, the overseas share of that market is still minute, if only because foreign beer is so much more expensive than the local brands. But Carlsberg has breweries in both Hong Kong and mainland China, and its subsidiary Danbrew - a spe-



The Carlsberg brewery in Copenhagen, with its distinctive elephant panels at the entrance, and (right) a view of the inside of the plant



Tony Jackson on the global reach of a brewer that (probably) exports more than 80 per cent of its output

## Carlsberg sees China as top market

cialist in building breweries in the developing world - has built 10 breweries for Chinese customers to date.

Even so, Carlsberg is not currently the leading foreign brand in China. That position, it concedes, probably belongs to San Miguel of the Philippines - though, Mr Iuul says, "there is very little information available."

Besides China, Carlsberg has big breweries in Vietnam and Thailand, and has spent the past five years trying to develop its business in Russia. Its chief advantage lies in its strength as an international

brand: and in this respect, Mr Iuul says, its competition is "Heineken again and again".

The big US brewers, owners of such domestically dominant brands as Budweiser and Miller, seem to have made little impact so far. However, given the record of US global brands Marlboro and Coca-Cola, it would be unwise to assume this state of affairs will last for ever. As Mr Iuul remarks of the US brewers, "they certainly have the financial muscle".

To an extent, all this depends on how far brands manage to establish them-



Michael Iuul: "There will be a shake-out in Europe"

selves as a global force in brewing, as they have in spirits or soft drinks. "In some mature markets," Mr Iuul says, "you are getting cheap own-label products moving in. But in growing markets, you have a lot of people with social aspirations. And when it comes to beer, most of the [international] brands reflect higher quality as well."

But however global the future may prove, Carlsberg's immediate outlook is dominated by Europe, where it still sells around 85 per cent of its volume. This might suggest a kind of race between a big

declining European business and a small but fast-growing overseas one. Mr Iuul does not accept this. "The market is not losing ground in some of the traditional wine-growing Mediterranean countries," he says. "Germany is a battlefield, and the UK and France have certainly had difficult years during the recession. Over the next few years, I see Europe as stagnant, but not declining."

The UK market, however, is of central importance to Carlsberg's fortunes in the near term. In 1992, it put its UK operations into a 50-50 joint venture with Allied-Lyons, the

UK brewer. The venture, known as Carlsberg Tetley, is one of the biggest brewers in the UK and, according to outside estimates, Carlsberg's half share contributes close to half the group's worldwide profits.

This makes it all the more important that the two partners should see eye to eye. Allied recently went out of its way to reaffirm its commitment to the venture. But in the longer term, its ambitions are in the global business of wines and spirits, not the domestic business of UK beer. Carlsberg, Allied hints, is in the long run the more natural

owner of the business.

Mr Iuul shrugs this off. "I don't know," he says. "You can have a married couple where one says 'I want a divorce' and the other still sees the marriage as happy. We are quite happy with the partnership. It had its problems at the outset, but any merger has. And Allied say they are committed and confident."

That apart, the European market is far from stable. "There will be a shake-out in Europe," Mr Iuul says. "There is strong price competition in many markets, which will lead to a shake-out in production costs. Competition has also been promoted by concentration in the retail sector. A 'cheaper' sector has established itself and gained some volume, and it won't go away."

Similarly, he argues, the UK market is in transition. "There is no doubt that brewing in the UK has to be rationalised. The cost per barrel being produced is in many cases higher than on the Continent. With further harmonisation of beer duty, the costs have to come closer together."

The obvious question is how far Carlsberg wants to play a part in that process. Suppose that, as some believe, the UK market - probably the most important to Carlsberg in the world - is doomed ultimately to end up a brewing duopoly along American or Australian lines. Does Carlsberg want to be a player?

Mr Iuul does not answer the question directly. The duopoly hypothesis, he says, is a long way off. "In general terms, we like to spread our risk. But the UK market is one we feel comfortable with. We've been there a long time. When you go into a country like Vietnam, your knowledge of local conditions is bound to be more superficial."

To venture a paraphrase: Carlsberg is looking to a brave new world, but it cannot afford to turn its back on the old world either.

## A profile of Danisco

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MD Foods' distribution lorry

### Profile: MD FOODS

## The target is Europe

MD Foods, the large Danish dairy co-operative, is delivering milk to British doorsteps as part of a move to stretch its reach abroad. Through its co-operative arm, MD Foods International, the co-op has bought into the UK market in advance of the coming liberalisation of milk production.

Mr Finn Christiansen, executive director of MD Foods, explains its international ambitions: "We've invested very heavily in the rationalisation of the Danish dairy industry at the end of the 1980s and had got to the point where growth was stagnating."

Recognising the need to expand abroad, the co-op thought it could not ask its 10,000 farmers to put up the cash. "Emotionally, it's very difficult to get farmers to understand that we would be going to other countries and processing other producers' milk."

Four years ago, the co-op set up MD Foods International in which it owns a 62 per cent share, with the rest of the capital supplied by institutional investors. The Danish Dairy Federation, which represents dairy companies, contributed some overseas assets and the Danish Dairy Suppliers, a co-op which provides equipment to the industry, put up DKK100m (£10.3m).

Mr Christiansen stresses that MD Foods has targeted Europe as an area of primary interest since the company believes it will face restrictions on exports of dairy products to third countries as a result of the Gatt settlement. In 1990, the company began its acquisition route into the UK and it is also looking at moving into Germany.

The export trade is vital to Danish dairy farmers, who produce three times their domestic requirements. The UK, restricted by EU milk quotas to output covering only 85 per cent of its milk needs, is seen as an extremely important prize by overseas suppliers.

MD has spent £150m in the UK in the past four years, gaining a 10 per cent share of the UK milk market. "The liberalisation of the market will present good opportunities for us to work closely with farmers. That comes naturally to us as that's what we do in Denmark," Mr Christiansen explains. The opening up of the £3bn UK milk market will leave dairies to buy their supplies directly from farmers if they wish.

MD Foods controls 81 per



Finn Christiansen: sees opportunities in UK milk market

cent of the milk output in Denmark - 70 per cent directly and the rest in co-operation with Kløver, another dairy group.

Milk production in Denmark has traditionally been quite fragmented with the average producer owning just 40 cows, but growing cost pressures are forcing dairy farmers to expand. Last year, the number of milk producers fell from 17,200 to 15,000 with the remaining farmers increasing in size. This is a trend that is likely to continue.

Mr Christiansen believes the whole of the EU dairy market is becoming more competitive as a result of the Gatt settlement. In the run-up to the implementation of the Gatt deal next July, dairies are positioning themselves on the European market and buying market share at almost any price.

In April, MD secured an additional DKK50m to its annual investment budget of DKK600m specifically to invest in facilities for making products aimed at the EU market. The extra funds will probably be spent on producing mozzarella and other cheeses for the German market.

The big impact of the Gatt deal could come on the cheese market, Mr Christiansen believes. Cuts must be made in subsidised exports of cheese to countries outside the EU - this will involve reducing subsidised exports to 305,000 tonnes by the year 2000.

At the same time, the EU must give access to its internal market to third countries. Mr Christiansen reckons the combination of these two measures will mean the EU market must absorb an additional 280,000 tonnes of cheese by 2000. "Prices are already being squeezed as people are trying to position themselves in the market in anticipation of the export cuts," he says.

MD Foods is also looking to increase its position in the European market for higher-value products as a way of securing market share under the rigours of Gatt. Mr Christiansen is keen to build on the success of its Lurpak butter brand in the UK and, since the butter market is declining, substitute cheese and dairy products.

A new cheese spread, which was launched in the UK last year, has not taken off because Mr Christiansen acknowledges that it was placed wrongly in the market and is too expensive. "We need to do more research into the type of products that will fit well into the UK," he says.

Its new Gaio yoghurt will be introduced in the UK later this year in the hope that it will enjoy the levels of demand found in Denmark. Since last October, Gaio has captured a 15 per cent share of the Danish

Continued on next page

## DANISH FOOD INDUSTRY IV

Deborah Hargreaves on how Gatt has affected Danish Crown, the country's largest pork company

## Export trade is life's blood of pig co-op

Danish Crown, Denmark's largest pork company, has already started to feel the effects of the latest General Agreement on Tariffs and Trade deal. This year, the company has exported significant quantities of meat to Korea for the first time in its history. "It surprised us - we didn't expect it to happen so quickly," says Mr Kjeld Johannesen, company president. "Korea was a closed market for us."

European exports of pork - mainly frozen belly and collar - reached around 6,000 tonnes in the first quarter - with Denmark providing the lion's share. Mr Johannesen believes sales to Korea could increase to as much as 30,000 tonnes by the end of the year.

The opening up of new markets overseas is of great interest to this huge pig co-operative since the export trade is its life's blood. In the 1992-1993 financial year to the end of October, 85 per cent of Danish Crown's DKR9.2bn turnover came from its export business and a third of sales were made outside the European Union. Its overseas sales make up 12 per cent of all Denmark's agricultural exports.

"In general, the export market is a question of survival for Denmark because we produce many times our own needs," says Mr Johannesen.

One of the strengths of Danish Crown's marketing efforts overseas is its strong focus on quality products. "The consumer's focus on food safety is very important and that's why we like to control production from breeding to the end-user," he stresses.

Danish Crown is able to exert an influence on pig production through its co-operative set-up. The company has 15,000 farmers as members, all of whom receive a share in profits at the end of the year. Farmers also shape company policy by electing representatives to an advisory committee which comprises 225 producers and 22 staff. That committee elects 12 members to the Danish Crown board of directors.

The co-operative set-up commands considerable loyalty

from farmers who see it carving a market for their produce in a way that would be impossible for individual producers. While some farmers are tempted to sell to private operators as these often offer a higher price, they must leave the co-operative to do so.

"If someone is selling privately while still in the co-operative, he is spoiling the company for a quick profit and I will make him stop or he must leave," says Mr Niels Rosing, a pig farmer who is a representative on the Danish Crown board.

Farmers are currently feeling the pinch from low pig prices in Denmark, where as in the UK, pork profits are depressed by overcapacity. Pig prices fell from DKR13.40 per kg two years ago to DKR8.50 per kg in January to March this year, pushing some producers out of business. "It has been very tough," said Mr Rosing, who estimates that

about one pig farmer in 20 went out of business.

Prices are creeping back again now with the onset of the barbecue season and the market has reached DKR9.80 a kg. But Mr Rosing stresses that, even though prices are

around 5 per cent more animals than it consumes, highlights the importance of Danish Crown's export sales outside the EU. The company delivers 11 per cent of its export sales to the Japanese market, but the high value of

tion resulting from the Gatt deal. "It is very important that we are aware of very tight competition from the US," says Mr Johannesen.

Danish Crown's biggest markets still remain within the EU with Germany overtaking the UK for the first time last year as the most important destination. Germany took 16 per cent of the company's exports last year with 13 per cent going to Britain.

Denmark's efforts to market its agricultural products overseas have been very successful, aided by the homogenous domestic set-up which sees large co-operatives controlling most of the output.

Danish Crown is part of a larger pig co-operative which sets prices to farmers and produces a joint marketing campaign. The Dansk Slagterier, to which Danish Crown belongs, is made up of five smaller co-operatives which between them slaughter 96 per cent of

the nation's pigs.

Danish Crown uses its high standards of production and the quality of its meat to differentiate itself from run-of-mill producers in other countries. This gives it a particularly important edge in the Japanese and Asian market.

The company has over 100 veterinary inspectors who regularly check on farmers' pig herds. It insists that regular disease checks are made on pigs and that all feed is tested for salmonella before the animals eat it. "The co-operative makes it easy to influence in a short time what is being produced by the farmer," says Mr Johannesen.

Along with the demand from consumers for "clean" products and calls for free-range pigs, particularly from the UK market, Mr Johannesen sees a move towards more old-fashioned products with a traditional taste. Danish Crown has worked with some supermar-

kets to produce the Mester Pøker range of pigs which have slightly more fat than today's lean animals: they are larger and are hung for longer to give them more flavour.

At the opposite end of the scale, Danish Crown has introduced its Green Butcher range of meats and salad products which contain less than 3 per cent fat. This range currently represents 2 per cent of sales in Denmark and is sold overseas on a franchise basis. The company has recently run a large advertising campaign for the products in the hope that it will capture 5 per cent of the market. It is now working on a fat-reduced salami, since salami products are widely eaten in Denmark.

Formed four years ago when three co-operatives banded together, Danish Crown has managed to cut its costs by 10 to 15 per cent in the past two years. The company sees a tough period ahead with increasing competition in markets outside Europe from the US. "It is important for us to stay in front on standards and keep in touch with our customers' demands," says Mr Johannesen. "That's how we will compete."

Danish merchandise exports	
1992 figures in DKr bn	
Agriculture	40.9
of which to non-EU countries	16.7
Meat	23.3
of which, pigmeat	16.7
Dairy products	4.4
of which, cheese	4.5
CAP restitution payments	5.4
Total	246.0

\*Excluding CAP restitution payments Source: Agricultural Council, Copenhagen

low, at least farmers have a steady outlet for their pigs which the co-operative must always take even if it sees little demand.

The decline in pig prices across Europe, which produces

those sales means Japan represents 21 per cent of the value of its exports.

Those lucrative markets could be threatened by expansion of the US pig herd, however, and increasing competi-

Profile: CHRISTIAN HANSEN

## How rennet led to biotechnology

Given Denmark's long history in the world food industry, one might expect its food companies to have reached a mature old age. A striking exception to this is the Christian Hansen Group, which supplies food ingredients to multinational giants such as Nestlé, Kraft, General Foods and BSN.

Christian Hansen was founded as long ago as 1874, specialising in the manufacture of rennet, the cheese ingredient used to clot milk and give the cheese its flavour. It is still the world's biggest rennet supplier, with about 20-25 per cent of the world market. The world cheese market is scarcely growing, however, that did not stop the company increasing profits last year by 30 per cent to DKR181m (£18.66m) before tax, and by 36 per cent the year before.

With sales of around DKR1.5bn (£150m), Christian Hansen is scarcely a giant. Neither is it a financial minnow, being heavily involved in the glamorous business of biotech-

nology, it is highly rated by the stock market and its market value stands at around DKR2.5bn (£250m).

The involvement in biotechnology is again something of a Danish speciality. But as Mr Poul Hansen, the company president, remarks, the term can be confusing. It is commonly taken to refer to genetic engineering, in which Hansen is involved to some extent. But, Mr Hansen says, the company's origins in the dairy industry mean it has been involved in biotechnology from the outset: in enzymes and bacterial cultures, which exist in nature but which the company began by producing in pure standardised form.

The development can be illustrated by reference to rennet, which made up some 90 per cent of the company's sales as recently as 20 years ago. Until the 1970s, the company produced the natural enzyme from calves' stomachs. By the mid-1970s it was producing microbial rennet, derived from

fungi or bacteria and qualifying for use in the growing market for vegetarian cheese. Then, some five years ago, it began producing genetic rennet, made by replicating the animal gene but still qualifying as vegetarian in, for instance, the UK market.

In genetic rennet, it competes with Pfizer of the US and Gist-Brocades of Holland, both much larger than itself. However, this does not bother the company's executives unduly. The policy, Mr Hansen says, is to operate in niche markets, and to be big in them. Historically, the food ingredients industry around the world consisted of small, privately owned companies in each market. There are still a few left, Mr Hansen says, "but we are one of the few which have stayed independent."

Besides Pfizer and Gist-Brocades, other giants of the pharmaceuticals business have bought their way into the industry, such as Rhône-Poulenc of France. But Hansen, too, has acquired some 15 smaller companies over the years. Plainly, it is an industry in which size means something.

"The very big multinational food companies," says Mr Vagn Dinesen, vice-president, "need people of a certain size as a matter of reliability. The concentration of the food industry brings a corresponding concentration in their suppliers. We follow our customers around

the world, and our philosophy is to service the customer at close range. It's an expensive way of selling, but it's necessary for us."

Take, for instance, natural food colourings, another Hansen speciality. A certain red colouring, derived from paprika, is used in pepperoni sausage. "We buy hundreds of tons of red peppers a year, from Spain, Brazil and Africa," Mr Dinesen says. "Suddenly, a big American pizza chain decides it wants to use our colouring in the pepperoni on its pizzas. When head office has decided that, it spreads throughout the world."

Oddly enough, the company's production is less scattered geographically than it used to be. "Originally," Mr Hansen says, "we put production in almost every market, since transportation of rennet was a problem. Now we're cutting back: we have six rennet plants worldwide - three in Europe, two in South America and one in Australia."

In colours, Hansen now has plants in the UK, Brazil, Spain and Argentina, besides Denmark. Some of its foreign ventures have a distinctly exotic touch. Recently, it has started up a plantation producing annatto, a bush whose seeds have an orange-yellow colouring that is used in butter, mayonnaise, cheese and margarine, on the estuary of the Amazon in northern Brazil.

"Part of our philosophy," says Mr Hansen, "is to help industrialise food production around the world. In Denmark or the UK, food is produced in big, modern factories. In the Far East, it is typically made in households. Our philosophy is to help bring food production to industrial scale, using natural ingredients."

Tony Jackson

Profile: TULIP INTERNATIONAL

## Cuts bring home the bacon

Four years ago, Tulip International, Denmark's large processed meat exporter, was losing DKR1m a day. Today, following a programme of severe rationalisation, the company is back in the black and looking to increase its markets overseas.

During that period, Tulip has been transformed from a collection of competing farmers' co-operatives into a limited company which is 44 per cent owned by Danish financial institutions. "These co-operatives had been competing for 50 years and we had to change from a slaughterhouse culture to develop marketing and advertising strategy," explains Mr Flemming Lindelov, group managing director.

Tulip was formed in 1990 by the merger of the processed meat divisions of three slaughterhouses and Danepak, a Danish-owned UK bacon company. The slaughterhouses, which have since completed their own merger, still own a 56 per cent stake in the company. A group of bankers injected DKR625m into the company to enable it to rationalise production capacity.

This meant closing four factories to concentrate production in three centres. The restructuring involved a 34 per cent cut in the workforce from 4,039 employees in 1990 to 2,728 last year, while the company continues to produce the same amount of processed meat: 150,000 tonnes a year.

The rationalisation cost roughly DKR600m, with DKR400m being spent on closing facilities and boosting pro-

duction capacity at other plants to take up the output. The company has now managed to turn a loss of DKR270m in the 1991-1992 financial year ending in October to a net profit of DKR151m in the last financial year.

Tulip will continue to invest in efficiency improvements by spending DKR123m this year and DKR140m in 1995 on equipment for increasing productivity.

"We've done all you can read in management books by turning ourselves into a company with high volume and low costs; now we must concentrate on being customer and market-led," Mr Lindelov says.

Tulip has put a lot of effort into product development which is vital for its growing export trade. About 95 per cent of its production is exported, and the company has slicing, packaging and processing plants in the UK and Germany.

Tulip receives 37 per cent of its DKR60m turnover from the UK market where it has 1,200 employees. Around 35 per cent of its sales come from the rest of Europe and 11 per cent from the US.

It is a leading supplier of bacon and ham products to Marks and Spencer, the UK retail group, for which it manufactures 30 to 40 new products a year. "Marks and Spencer is really keen on new products; for the rest of our markets we bring out 10 to 15 new products," Mr Lindelov explains. The company has 15 employees working on product innovation in the UK and 15 in Denmark.

It is looking to Russia as a big new export market where

the company is supplying canned ham. Sales in Russia now represent DKR250m and Mr Lindelov is confident this level could double within a couple of years. Tulip recently opened its own warehouse in Russia and hopes to start a sales office in Moscow.

Its canned meat division also plans to increase sales in eastern Europe and central America. At the same time, Tulip is looking to boost its market share in the German and Scandinavian markets where tastes are similar and the same products can be sold.

However, last year the company drew back from the US market where it was suffering from currency fluctuations and halved its market share in

the US. It is trying to differentiate itself in the US market by selling higher value, low-fat ham products to delicatessen shops.

Mr Lindelov has tried to foster a culture where the company is responsive to the needs of its customers and employees remain flexible. For example, the head of Tulip's ham division, who was in charge of 600 people with a turnover of DKR1.1bn, has now been moved to head a sales office in Germany with 50 employees. "We want to try and show that a product development manager is as important as leading a sales division," Mr Lindelov explains.

Deborah Hargreaves

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## MD targets Europe

Continued from previous page

yoghurt market - MD Foods had to cancel television advertisements several weeks after the launch as the company did not have enough production capacity to satisfy demand.

Gaio is based on a recipe found in a remote part of the Ukraine where villagers traditionally live to extremely old ages. MD Foods is not allowed to make any health claims for its product, but it has captured the imagination of many consumers.

Eventually, MD Foods hopes to sell products such as these outside the EU, particularly in the growing Asian market, but it is a slow process. Mr Christiansen says he has been developing the Japanese market for 35 years to which MD Foods sends mozzarella and cream cheese. Asia accounts for 9 per cent of MD's export sales.

"Gradually, the Japanese are eating more pizza and cheese cake, but they still consume very small amounts of dairy products compared with the west," he said.

The European dairy industry is concerned that some of these markets could be jeopardised by the cuts in subsidised exports required by Gatt. For this reason, the Danish Dairy Federation has suggested to the European Commission that some farmers could produce a little extra milk at world prices.

This proposal is still in its

very early stages and no final decisions have been made, but it would get round the problem of maintaining export markets. "If we don't find a way to produce more without subsidy, we will see that in six years at the end of the current Gatt deal, we will have lost a big part of the world market," says Mr Christiansen.

Some 55 per cent of MD Foods' export sales come from outside the EU. Mr Christiansen is hoping that he can hold onto this in spite of Gatt.

Deborah Hargreaves

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## BUSINESS AND THE LAW

## Intellectual rights given precedence



Where intellectual property rights conflict with the interests of free competition, intellectual property rights should take precedence, according to a preliminary opinion of the European Court of Justice.

The interests of undistorted competition should prevail only where the exercise of a given intellectual property right was not necessary to fulfil the essential function of that right, according to the opinion of Advocate General Gulmann in the appeal in the Magill TV Guide cases.

The cases concerned attempts by Magill to publish a comprehensive weekly television guide. Copyright in TV scheduling information belonged to the BBC, Independent Television Publications and the Irish broadcaster, Radio Telefís Éireann, all of which published guides of their own listings. The companies licensed daily and weekend comprehensive guides.

Magill complained to the European Commission. The Commission found the three companies had abused their individual dominant positions by preventing the publication and sale of comprehensive weekly TV guides in Ireland and Northern Ireland. It ordered them to supply each other and third parties with their individual weekly listings - that is compulsory licensing. The companies appealed to the Court of First Instance, which found in the Commission's favour. They then appealed to the ECJ.

Before dealing with the points raised by the parties, Advocate General Gulmann made some remarks on the special nature of copyright. He said by their nature copyright laws give copyright owners the right to restrict competition. He also noted that the copyright laws of the member states generally balance the interests of copyright owners and undistorted competition by restricting the exclusive rights of copyright owners in certain ways, such as giving others the right to make certain use of copyright material on payment of a royalty.

He said that, although such a balancing of interests did not preclude further limitations on the copyright owners' exclusive rights

on the basis of the EC Treaty's competition rules, it did mean that caution should be exercised.

Six grounds of appeal were lodged in total by the parties and interveners. The only ground on which the advocate-general thought that the appellants should succeed related to the concept of abuse of a dominant position.

The appellants claimed the CFI had misconstrued this concept and its judgments should thus be annulled. The CFI had upheld the Commission's finding that the refusal by the parties to grant licences constituted an abuse of a dominant position.

The central issue was whether, and if so under what circumstances, a refusal to grant a copyright licence could constitute an abuse of a dominant position.

It was agreed a refusal to grant licences in itself did not constitute an abuse. But there would be occasions where such a refusal had been exercised under such special circumstances that it created an unacceptable obstacle to undistorted competition and therefore the copyright owners' rights should be restricted by EC competition rules. But, the advocate-general stressed that, given that compulsory licensing was a serious interference in copyright, there had to be substantial and weighty competition grounds if the right to refuse copyright licences were to be regarded as unnecessary to fulfil the essential function of the copyright.

He considered some of the CFI's findings on this point were flawed and not sufficient to be considered special circumstances. For example, the CFI found the copyright owners' rights were capable of being restricted because their refusal to grant licences prevented the emergence on the market of a competing new product.

But the advocate-general considered such action could be taken only where a refusal to grant a licence prevented a non-competing product's emergence. Where a competing product was restricted, copyright owners' interests should prevail over those of consumers.

Joined cases: C-341/91P and C-342/91P: RTE and Independent Television Publications, Opinion, June 1 1994.

BRICK COURT CHAMBERS, BRUSSELS

In April, Arthur D Little, the Massachusetts-based management and technology consultants, obtained an injunction from a California Superior Court judge banning Electronic Data Systems, an information-services subsidiary of General Motors, from soliciting its employees anywhere in the world.

The move followed a lawsuit filed by Little alleging that EDS had unfairly hired away almost the entire staff of Little's aerospace consulting practice, resulting in a significant loss of business.

The sweeping nature of the injunction surprised corporate America. Although companies frequently threaten legal action when one competitor poaches another's talent, cases rarely reach the courts. Broad prohibitions on soliciting employees are rare. The 18th amendment of the US Constitution guarantees citizens the right to work for any employer they choose if that employer wants to employ them.

EDS is considering an appeal. But, if the injunction is upheld on appeal, do US companies need to reconsider their hiring policies? EDS denies it has done anything wrong. Mr Mark Fox, an EDS spokesman, says: "We believe the suit is without merit and the injunction is without merit."

The lawsuit should be put into perspective, he says. EDS has built up a management consultancy of 1,100 people from scratch in two years. Of that number, 30 worked in the aerospace field and, of those 30, eight were former Little employees.

"We're building something very exciting, of which aerospace is a key area. People are attracted to that and are keen to work for us. But we've done nothing to twist their arms or use illegal means to bring them in," he says.

So why did Little bring the action? Mr Sam Gallo, the company's general counsel explains that the poaching of almost its entire aerospace consultancy was an unprecedented event. "Over the years many people have moved in and out of the company, but we've never had a situation where an entire practice area was essentially raided from the firm," he says.

When Little subsequently discovered that EDS was attempting the same thing with its metal industries consulting practice, it felt it had little choice but to take legal action.

Mr Gallo says the suit has three parts. Little is suing EDS for unfair competition under the California Business and Professions Code; theft of trade secrets; and for inducing Little employees to breach fiduciary duties to the company.

It is also suing Mr Charles D. Scates, former head of the aerospace consulting practice, for breach of

## Headhunting season closed

Robert Rice on a US injunction that limits poaching of a rival's staff



fiduciary duty and contractual obligations. Little alleges that, while still working for the company but after being hired by EDS, Mr Scates used his influence and position as an officer of the company to persuade colleagues to move to EDS.

Finally, Little is suing Heidrick & Struggles, an executive recruitment firm. Little alleges the firm acted improperly by helping EDS recruit members of its aerospace group while Little itself was a client of the headhunters. Heidrick & Struggles denies it acted improperly.

Having filed the lawsuit, Little then sought a worldwide injunction to preserve the status quo until trial of the action. Its intention was not to prevent any Little employees from applying for jobs at EDS but to stop EDS from approaching any more Little staff around the world.

Mr Gallo says that, to get the injunction, Little had to satisfy the judge it was more likely than not to win the lawsuit. "He must have been satisfied we had a strong case," he added.

Does the sweeping nature of the protection gained by Little have broader implications for US businesses? Mr Jeffrey Kingston, a part-

ner of San Francisco-based Brobeck Phleger & Harrison, says there are several dimensions to the case.

At one level the lawsuit seemed a straightforward Bancroft-Whitney v Glen claim - the 1960s case which established the principle under California law that it is a civil wrong, or tort, to conduct a raid designed to cripple a competitor by luring away a group of its employees.

"It's fairly difficult for a plaintiff to prove but, if [the raid] delivers a crippling blow, then it's a tort for which damages are payable," says Mr Kingston.

The action against Mr Scates was more commonplace, he says. If a manager, before leaving a company, induces employees under his supervision to leave with him, it is a breach of his fiduciary duty of loyalty to the company for which he could be held liable in damages.

Few of these cases reach the courts, however, because where only one or two employees have been lured away it is hard to quantify damages. Where, on the other hand, a large group of employees has been lured away, as is alleged in this case, such an action becomes more viable as the damages can

be more easily quantified.

In the Little case the hiring away of almost an entire practice group is said to have crippled Little's \$4m aerospace consultancy.

The case was also about theft of trade secrets, says Mr Kingston. The allegation is that EDS misappropriated Little's trade secrets by using Mr Scates' inside knowledge about employees at Little and their terms and conditions of employment to lure them away. Such knowledge would not normally be available to outside headhunters.

Overlaying all this, however, is the allegation that the EDS action amounted to unfair competition in breach of the California Business and Professions Code.

According to Mr Howard Fine, a partner in the San Francisco office of Baker & McKenzie, if the Little claim is upheld by the courts it would represent a novel application of the unfair competition law.

By granting the injunction the court appeared to be saying that, where a company undertakes a targeted business programme to undermine a competitor by picking out its more gifted employees, that would amount to unfair competition.

The unfair competition law could not be used to block EDS from soliciting one or two employees, he adds. To succeed when the action comes to trial Little will have to show a concerted plan by EDS to damage its aerospace consultancy. That may prove difficult, he says, unless it can produce evidence such as internal EDS memos planning to target Little employees.

Unfair competition cases normally involve allegations of unfair business practices and other restraints on competition, Mr Fine says. If the Little case goes to the California Court of Appeals it could represent an important development in the law.

But most lawyers believe the case will be settled before going to trial. Mr Fine says the likely course of events is for the two sides to reach an agreement that the defendant company will not solicit the plaintiff's employees for a certain period of time. Provided it does not restrict the freedom of individual employees to work for whomsoever they choose, such an agreement could provide the basis of an amicable settlement, he says.

Mr Fox says EDS are anxious to move on and put the dispute behind them. Mr Gallo says Little are "not averse to settling it" on the right terms. Clearly, a settlement would make commercial sense for both EDS and Little. But if they do settle, the uncertainty surrounding this area of the law will continue, and that may be in nobody's interests.

## LEGAL BRIEFS



## Survey finds UK conveyancing best in Europe

International property investors believe the UK has a better legal system for property transactions than other European countries. They also prefer the UK's tax structure, according to a survey conducted by Gallus for international property consultants Richard Ellis.

The survey of 66 institutions - which included Japanese life companies, French insurers, German open funds, Dutch pension funds, Hong Kong entrepreneurs and UK institutional investors - found that half of those questioned thought the UK's conveyancing system was preferable to others in Europe. Only 16 per cent thought it was worse. On the tax system, 44 per cent thought the UK was better than its European rivals.

UK chartered surveyors were also rated more highly than their European counterparts by 71 per cent of those questioned. But more than one-third of those surveyed thought London's status as a world financial centre had declined in the past five years and 26 per cent believe it will decline further.

## Mediation costs

The Centre for Public Resources, the New York-based alternative dispute resolution organisation, has announced that business disputes involving \$1.7m were resolved successfully last year through the use of mediation and other forms of dispute resolution. CPR says 150 of the companies involved in mediation estimated direct legal cost savings of \$37.5m, an average of \$250,000 per company. Disputes resolved in 1993 by CPR mediators included anti-trust, bankruptcy, construction, employment, energy, environment, intellectual property, libel, professional fees and asset transfers.



Dilson Ferreira, General Manager Coatings South America.

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CREATING THE RIGHT CHEMISTRY

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**PERSONAL VIEW**  
I doubt there were many Financial Times readers who failed to heave a sigh of relief in April when ministers signed the Uruguay Round deal in Marrakesh. Relief, partly because most of them must have felt war-weary after eight years of reading about seemingly interminable negotiations and partly – perhaps predominantly – because they understood just how vital the deal really was.

The results of those negotiations will be implemented as from January 1 1995 when the World Trade Organisation comes into being. One can only hope that the major players will not make the process of ratification – which is required before we can finally confirm the implementation date – into an agony of indecision and delay. The birth of the WTO should not be held hostage to domestic political infighting – nor to transient trade squabbles, which tend to be of mind-withering inconsequence when measured against the crucial importance of the new multilateral trading system.

But even when the WTO is in place there will be a temptation, in some capitals at least, to revert to "business as usual"; perpetuating the same kind of preoccupations, justified or not, with respect to bilateral trade balances, alleged "unfairness" in trading practices and so on. It is important that we recognise that the WTO is a response to continuing global changes, economic and otherwise, and that, as a consequence, its activities have to be seen against a background of much more than big-power trade politics.

It will be a truly multilateral institution seeking multilateral responses to the economic problems faced by a large continuum of countries. This is not to talk of "world government"; it is simply to face up to the inter-linkages between economies. It is also to reassert the spirit of the Uruguay Round in finding meaningful, practicable approaches, acceptable to all, which drive forward the creation of wealth and sustainable development.

Establishment of the WTO does, though, call for a new commitment to co-ordination in economic policymaking. Why? Think for a moment about one key reason for most governments at present: education and training in the context of unemployment.

## Spirit of new trade order

Peter Sutherland on making the Uruguay Round effective



Peter Sutherland: WTO is a response to global economic changes

There is a convincing argument that expanded trade between the developed and developing worlds has, in the past few decades and particularly since the mid-1980s, led to significant employment shifts in both. And it is not a simple matter of jobs lost and gained. While the extent of jobs lost in certain industries and gained in others in the developed countries can be debated, it seems clear that trade with the developing countries has tended to favour the skilled against the unskilled and exacerbated the gap between them. At the same time, in developing countries, export-oriented policies have encouraged a faster rate of learning and investment in education. This has opened up a gap between those with little or no education, who are unlikely to be involved in anything but the most rudimentary manufacturing activity, and those with at least a basic level of education.

This is an important observation. The results of the Uruguay Round, and particularly those related to increased market access for goods and services, are designed to expand trade: certainly between developed and developing countries and those countries in the process of economic reform. Thus, the impact of recent trade growth on skill demands and on the gap between skilled and unskilled, educated and uneducated may be reinforced and, perhaps, accelerated over several decades.

Nor is it just concessions on market access which will spur demands on education and training. New opportunities will be opened up through the intellectual property agreement – encouraging technology transfer, for instance – and the services deal will lead to the establishment of foreign service providers requiring skilled, educated employees. And this should not be seen as a one-way process; opportunities for the development of new skills will be as great in industrialised as in developing countries.

The real question that arises is whether we are thinking hard enough about the machinery which will help governments identify and respond to such trends. After all, it is evident that the most important influences on national economies are now, and will be increasingly, outside their borders. As a consequence, most governments will be left with few policy instruments with which to attempt to affect the performance of their own economies. If that is the case then it is vital that the international machinery be effective.

I have argued previously that the present machinery of the G7 is now inadequate. On almost every measure, it is an unrepresentative organism and, consequently, its deliberations seldom have meaning or relevance for countries outside the select group – not always, indeed, for those inside. That is a big loss. The fact is that the G7 countries must recognise that they cannot take sole responsibility for the broad thrust of economic management without adequate participation of the countries representing new dynamic markets in the developing world. There is a need for a grouping of countries that can be more effective and representative with some participation, perhaps, on a rotating basis.

But the key to making such a group effective is not only representation but the input participants receive. Here, the multilateral institutions must now get their act together.

At present we have a multitude of researchers and analysts in a multitude of organisations producing countless papers and reports to be added to those produced by governments themselves. Why should the organisations concerned with money, finance and trade – the International Monetary Fund, the World Bank and the WTO – not evolve a single coherent statement on issues of economic concern to a representative forum of the world's leaders? And in order to ensure implementation of the decisions reached, the same organisations should co-ordinate more effectively to give strong institutional support.

One thing is for sure. We must concentrate on the long-term implications of the agreements which have been reached by the WTO and on the way in which this new multilateral trading system will spur new approaches to global economic management.

The author is director-general of the General Agreement on Tariffs and Trade



Joe Rogaly

## Hand-up, not hand-out

Its jobs, stupid. The Clinton campaign's famous phrase should be thus restated in time for the next British general election. The deciding issue could be employment policy. That would not necessarily be to the disadvantage of the Conservatives. Since 1979 they have won most of the arguments. As soon as the Labour party has a new leader it had better find out why, and what to do about it. A bogus commitment to full employment will not suffice, except perhaps as a cynical slogan. What Labour needs is a credible social and economic programme. At present it has none.

This is not to belittle Mr Tony Blair, the likely winner of a leadership contest. He talks of national renewal. He also espouses the development of the individual through a return to the values of the family and the community. Such a sermon could win converts, but it would not guarantee victory. For that Labour needs a believable set of economic proposals, a strategy that comforts the electorate, a story that convinces voters that they would be better off if they threw the Tories out.

To his credit, Mr Gordon Brown has cleared the way for some of the necessary rethinking. The shadow chancellor has worked hard to reposition the Labour party. He and his colleagues now run a mile from anything that could imply an increase in personal taxation. The party is no longer associated with devaluation. His central message is that Labour would fit people for the 21st century job market by better education and lifetime opportunities for retraining. The Conservatives have expressed their admiration by

copying him of it. Mr Brown further distinguished himself last week by stepping aside to allow Mr Blair a clear run at the leadership. He was right. A man who speaks in capital letters would be unlikely to soothe the anxieties of wavering voters. He could do his cause a further service. He could challenge his party's long-standing beliefs about devaluation, the minimum wage, and unemployment benefit.

I have chosen those three out of a potentially longer list because the new leader, be it Mr Blair or his likely rival Mr John Prescott, will be asked about them. The debate could begin next Monday.

The GMB general union has invited contenders for the Labour leadership to appear before its delegates in Blackpool on Monday afternoon. Mr Prescott believes that it is his duty to campaign for a commitment to full employment, if only to force Mr Blair to reveal his hand. Touching as it may seem, Mr Prescott regards a challenge by himself as an endeavour to ensure that the new emperor has clothes. Violence, please. Self-sacrifice has become chic in the Labour party. The only danger is that he might win. Happily, it is slight.

What will Mr Blair say? He appears to have handed the economic portion of his brain to Mr Brown for education and training. One or both of them will doubtless study a special report due to be published by the OECD tonight. This should put persistent structural unemployment high on the political agenda. It is too closely argued to be disposed of in a few headlines, but the thrust of it

favours the Conservative approach to labour market regulation, tax policy, social security contributions, and the minimum wage. Education's training is also on the OECD's lengthy menu of proposed job-creation policies, but the people's party will find little support for its current thinking in most of the other items.

Alternatively, the putative leader of the opposition may turn to Mr Robert Reich, Mr Clinton's secretary of Labour. Mr Reich has been all over London town. He spoke at a Guardian seminar on Sunday and delivered a lecture organised by the Labour think-tank.

The Institute for Public Policy Research, yesterday, has a tale of woe to tell, about the US being the most unequal society in the world, with Britain racing to catch up with that dismal record. Jobs, and wage increases, are going to the "problem-solvers", people with university degrees. The unskilled and uneducated are today's losers. Like everyone else, Mr Reich favours more training and better education. That said, his further arguments give little support to an inadequately modernised Labour party.

He is lukewarm about increases in the US's generally low minimum wage. How low would Mr Blair put the floor in Britain? Mr Reich acknowledges the high cost in jobs foregone of continental Europe's regulated and highly taxed labour market. President Clinton's reemployment legislation is designed to get people off social benefit. In the 1980s it might have been called welfare. On the morning of black Wednesday in 1992 I heard the

president campaign on this theme in Watts county. In last autumn's British budget the Conservatives announced a new "job-seekers' allowance". It cuts the time on benefit from 13 to 6 months and obliges claimants to look for work or accept training schemes. Labour is awaiting the report of its social justice commission on this subject. Its leadership candidates should beware. Any promise of full employment, or a move towards it, would be hollow without some reform of the welfare system. The American slogan "a hand-up rather than a hand-out" would do.

Mr Reich has other pots simmering. One contains a school-to-work apprenticeship programme; another a tax credit system for low-paid workers. Britain's Tory administration introduced family credit for low-paid employees and national vocational qualifications that could become goals for apprentices. As with all job-creation programmes, none of these is itself a solution, but together the complete Reich package may add up to somewhere between harmless and mildly beneficial.

Labour is trapped between the tempting haven of continental Europe, whose comfortable conditions for employees cannot be sustained, and the awful example of America, whose 1980s deregulation has destroyed whole layers of society. There is no magic third way, certainly not one that ends with everyone who wants a job getting one. Subsidies rarely work. You have to settle for less regulation and less welfare if you want more people in jobs. The question is how much less. If Mr Blair becomes leader he will have to teach his party these facts of life. Then, with Mr Brown, he should assemble a package that outflanks the Conservatives. The alternative is hot air, and another Tory victory.

**Labour should beware. Any promise of full employment would be hollow without reform of the welfare system**

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

## Managements should pay for bad advice

From Mr Alan Saunders.

Sir, Your editorial, "More knocks for the FIA" (26 May), is yet another example of the divergence that is taking place away from the real issue. I, for one, have become increasingly frustrated at the inability of the Treasury and Securities and Investments Board to avoid politicisation of the issues involved and at their unwillingness or inability to grasp the fundamental points which are, or should be, simple and clear.

First, the structure of regulation imposed by the Pension Investment Authority is having, and will encourage, an anti-competitive result (this being directly contrary to the Treasury's stated intention);

an increasing number of independent financial advisers are giving up the business.

The effect of the proposed new regulatory structure is to encourage "bank-assurance" and the like to the obvious and long-term detriment of true independent advice.

Second, protection for the individual investor could be considerably strengthened within the existing regulatory framework and without the need for a PIA. Existing regulations do already impose direct penalties on the perpetrators of bad or fraudulent advice. However, to fine an insurance company punishes the shareholders and/or the policyholders of that company and does not punish those responsible, that

is, the managements which have allowed the salesman too much latitude. If the existing regulators made sure that the managements were individually fined, then the industry would see a very rapid and effective clean-up of its operations. Let it not be overlooked that most of the recent mis-selling of pension transfers was made by those employed by the insurance companies and banks, not by independent advisers.

Third, while no legislation will be able completely to deter the occasional fraudulent, recompense to those injured should come from a compensation fund created directly from a product levy. Perhaps it is naive to imag-

ine that the expansion of the regulation industry (for that is what it has become) could now be slowed down when there are so many people now involved, all with their large salaries, final salary pension benefits, personal assistants, secretaries et al. and, of course, individual spheres of political influence. It would be nice to see, or even hope for, a return to commonsense, rather than witness this continued expansion, knowing we in financial services have to pick up the tab and that, in the long run, the investment buying public will suffer.

Alan Saunders, managing director, Saunders French & Co, Craigie Hall, 6 Rannan Road, Glasgow G41 5BS

## Small firms not lacking advantage in Europe

From Dr Michael Burcher.

Sir, Mr Gerald Frankel and Mr Ben Coleman are quite wrong to put forward their view that only the largest companies can afford to commit resources to ensuring that new European standards are not to their disadvantage (Letters, June 1). Industry organisations and trade associations have a key role in the negotiation of CEN (European Committee for Standardisation) standards. Industries which have organised to meet this challenge through associations do so at very modest cost to individual members.

The existence of the European standards system is a matter of fact. Inadequate representation or poor performance in a standards negotiation can lead to products being standardised out of existence. On the other hand, a successful standards negotiation can offer a significantly greater market to a product which meets the new standard.

Virtually all players, large and small, in the UK galvanising sector give solid support to their industry organisation, finance it at a realistic level and look to it to deliver full value in European standards negotiations. Mr Frankel and Mr Coleman would do well to encourage the same approach elsewhere. In this way UK business meets the challenge of business from other EU states with equal strength.

Michael Burcher, director, Galvanisers Association, Wrens Court, 56 Victoria Road, Sutton Coldfield B72 1SY

## Contracting out by no means clarified

From Dr John McMullen.

Sir, May I comment on your feature on the revision of the Acquired Rights Directive, which protects employee rights on transfer of undertakings, ("Government near victory on contracting-out reform", May 31)? In particular, will the revised directive solve a problem for contractors, currently affected by present interpretations of the present directive? You are right to draw attention to the fact that the revised directive declares that the outsourcing of only an activity of an undertaking does not in itself constitute a transfer of an undertaking. This is underpinned by the preamble which makes it clear that the principles of "legal security" demand a clear distinction between transfer of undertakings and transfers of only an activity.

I wonder whether, however, celebrations may be premature. The directive goes on to

state that a transfer of an undertaking shall be considered to have taken place in cases where together with the transfer of an activity an economic entity which retains its identity is also transferred.

The revised version of the directive makes it clear that there is a distinction between the bare contract for services and a transfer of an undertaking. But it should be noted that, in the recent European Court case of Christel Schmidt (the outsourcing of a cleaning operation) and in the Court of Appeal case of Dines v Initial Health Care Services (the changeover of contractors providing cleaning services to Orsett Hospital), it was specifically found that there was a transfer of an economic entity retaining its identity.

It is certainly arguable, therefore, that these cases would have been decided no differently, even if the revised

directive had been in place. If that is the case, tribunals and courts battling with the revised version of the directive (if adopted) may find in many cases that the distinction between the transfer of an activity and the transfer of an activity that amounts to an economic entity which retains its identity is extremely hard to pinpoint. Any view that the new definition of a transfer is more restricted will depend on the interpretation of new wording in the directive's preamble that "an economic entity [is] understood to consist of several parts operating autonomously and pursuing a specific objective..." However a lot more work needs doing on the draft directive if real clarity is to be achieved.

John McMullen, partner and head of the employment unit, Simpson Curtis, solicitors, 41 Park Square, Leeds LS1 2NS

## No privatisation means paralysis for Post Office

From Mr George Guise.

Sir, It is good that the government is at last to propose privatisation of the Post Office although a full sale of the component parts would make more commercial sense than partial retention of public ownership.

The privatisation legacy of the 1980s, which has enhanced both the quality of customer service as well as national return on capital throughout the privatised sector, has left the Post Office out of kilter with everything around it. It cannot modernise and revamp its assets without meeting Treasury opposition. It cannot participate in a joint venture with, for example, an air freight operator, or make an acquisition without that being called a nationalisation. It is therefore currently held in a

full Nelson, one arm financially and the other arm politically. For any business this would be bad, but for a communications business it means long-term deterioration.

Because of recent organisational improvements, the Post Office is currently throwing off net cash to the exchequer and therefore assisting in public borrowing reductions. It has been fiscally convenient to milk this cow while indecision about privatisation continued. A normal business would be using a good part of this cash flow to protect and enhance its future competitive position.

There are several parts of the Post Office which could be privatised in their entirety, such as Parcelforce, and the Couriers business, without putting the thorny issue of Let-

termail and the Queen's head on the political centre stage. Lettermail should, of course, ultimately be privatised, with simultaneous abolition of the monopoly. Deliveries to the Isle of Mull could be protected either by direct state subsidy or by the inhabitants paying a commercial rate. The use of the Queen's head could either be discontinued or, better, licensed with the royalty going to royalty.

Those who wish the Post Office well should not be deceived into believing all will be safe if the state retains ownership and control. Such control can only bring paralysis leading to the ultimate destruction of the business. George Guise, 90 Long Acre, London WC2E 9RA

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# FINANCIAL TIMES

Tuesday June 7 1994

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## Clinton says nations must keep strong alliances Leaders praise unity as D-Day ceremonies end

By David Buchan  
on Omaha Beach

Veterans and international leaders gathered yesterday on Omaha Beach, the most notorious of the five Normandy landing points because of heavy US casualties, for the closing ceremony of the D-Day commemorations. Recalling the community of nations which banded together to fight Nazism 50 years ago, and that has since embraced democratic Germany, the wartime allies reviewed troops, marching bands, planes and ships from 13 countries that fought the Nazis.

The tale of the D-Day preparations was recounted in two ways - first in the homages of Mr Walter Ehlers, who won America's medal of honour and lost his brother on June 6 1944. Then President Mitterrand, himself for a time a prisoner of war in Germany, in polished rhetoric saluted all the veterans "come to rejoin their past, which is our future".

The French president also saluted the heroism of the Russian people, who pinned down 150 German divisions, the French resistance who helped pave the way for D-Day, and Hitler oppo-

nents inside Germany "who remained true... to the Germany of their dreams, home of the highest culture".

Meanwhile, in a newspaper interview yesterday, Chancellor Helmut Kohl denied he had ever solicited an invitation to the D-Day ceremonies, and said: "I understand very well why the allies are commemorating this occasion, so significant for Europe and for their sacrifices."

Chancellor Kohl, in a meeting with Mr Felipe Gonzalez, the Spanish prime minister, later underlined forcefully Germany's continuing commitment to the process of European integration. The message which all the leaders gathered in France sought to convey yesterday was that from the anti-Nazi struggle of 50 years ago came the post-war international co-operation that must be continued to combat present and future conflicts.

President Clinton told the US Rangers who had scaled the Pointe du Hoc cliff above Omaha, that there were "still cliffs to be scaled" by the world's democracies who must maintain strong alliances. Mr Clinton went on to tell the Ranger veterans that "if we should falter, we need only

remember you at this spot 50 years ago, and you again at this spot today".

Britain commemorated its dead at the Bayeux cemetery in morning drizzle and then its veterans at Arramanches in afternoon sun. The ceremony was attended by President Mitterrand, Australian prime minister Paul Keating and other leaders including the Grand Duke of Luxembourg who served in the Irish Guards to free his country from the Third Reich.

Later, Queen Elizabeth and Prince Philip walked among the graves of the 3,395 British dead and the memorial to 1,508 unknown dead of the Commonwealth. At Arramanches, the Queen said the presence of Mrs Simone Veil, a senior French minister who as a young Jewish girl was in Auschwitz, "represents perfectly why we are here today".

Mr Clinton, who has been criticised for not serving in the Vietnam war, paid eloquent tributes to fallen US soldiers and survivors. But at Utah Beach, where US forces had also landed, veterans booed when they were told tardiness on the part of President Mitterrand had also delayed Mr Clinton.

## S Korea acts to guard against attack

By John Burton in Seoul

South Korea yesterday decided to activate all emergency consultative procedures with the US to guard against possible military action by North Korea.

US and South Korean forces remained on a high state of readiness, while the emergency procedures include sharing of intelligence on North Korean troop movements and co-ordination at a military and political level. South Korean president Kim Young-sam is expected to brief senior officials and political leaders tomorrow on the dispute over nuclear inspections.

Meanwhile, the United Nations Command has asked for a meeting with North Korean delegates to discuss the North's unilateral withdrawal from the military armistice commission that supervises the 1953 truce that ended the Korean war.

North Korea yesterday repeated its warning that UN economic sanctions imposed on Pyongyang for its failure to accept full international nuclear inspections would be considered an act of war.

But no unusual North Korean military movements have been detected in spite of increased tension on the Korean peninsula, according to South Korean officials.

Mr Han Sung-joo, South Korean foreign minister, has arrived in New York to consult the US and Japan on the preparation of a sanctions resolution likely to be introduced this week in the UN Security Council.

The three nations have reportedly already agreed on the timing and degree of sanctions, which are expected to include Japan's stopping at least \$600m in cash remittances sent to North Korea by pro-Pyongyang Korean-Japanese.

The money is North Korea's largest source of hard currency, which is needed to buy vital oil and food supplies to prop up its struggling economy.

The dispute could be solved if the International Atomic Energy Agency is allowed to examine two suspected nuclear waste sites that could show whether Pyongyang diverted plutonium from its reactor to a suspected nuclear weapons programme in 1989.

## THE LEX COLUMN

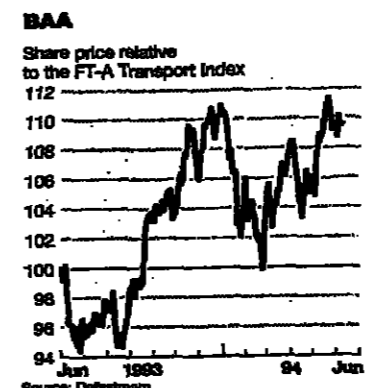
## BAA reaches for the sky

BAA has the defensive qualities of a utility but the growth prospects of the civil aviation industry. So it is hardly surprising that chief executive Sir John Egan is plying investment into the business. Planned capital expenditure in airports of £1.4bn over the next three years is more than double investment over the past three years. Part of this is to accommodate future growth in passenger volumes. But the stepped-up spending is also designed to expand airport retailing, improve the quality of terminals and build more office space. A further £200m is earmarked for investment outside airports, mostly building factory outlets.

Given that BAA's strategy of controlling costs and boosting retailing revenue is delivering handsome returns, investors will probably be pleased to have more of the same. Sales per passenger at the group's first redesigned shopping mall, Heathrow's Terminal Four, have increased 30 per cent. Meanwhile, BAA's construction costs have dropped by a third over the past three years and the company now boasts world standard building costs.

There are two main worries. First, that BAA's airport retailing investment could hit diminishing returns as passengers presumably have finite budgets. Second, that the group's moves into factory outlets could prove misguided, given its poor record of diversification outside airports. Still, Sir John is determined to proceed on a suck-it-and-see basis and would be prepared to pull projects if rates of return failed to meet expectations. The expansion programme seems to be in safe hands.

FT-SE Index: 3009.4 (+11.6)



Share price relative to the FT-A Transport Index

yield of almost 9 per cent tempted some fund managers into bonds last week. Where money is flowing into equities, larger stocks are more likely to benefit. On a yield premium of 20 per cent to the Mid 250 index, the FT-SE 100 looks most attractive to investors in search of value. A medium-sized company like BPC was therefore swimming against the tide. The flotation might have still have succeeded, but only by pricing the shares more cheaply than the company and its existing shareholders could accept. Other hopefuls may be prepared to bend a little more. Greater realism in pricing new issues was anyway overdue. The sight of big industrial groups floating subsidiaries rather than making trade sales - ECC and Hanson are cases in point - was a hint that equity market valuations had become over-blown.

## New issues

The paralysis which started to grip the new issues market in May is spreading. British Printing Company, the latest UK company to postpone its flotation, is neither an unfashionable property developer nor a cable television operator. Despite its colourful past within the Maxwell empire, BPC is the kind of solid industrial company institutions would normally be happy to own. Despite flotations totalling \$7bn this year - more than in the whole of 1993 - there is no shortage of institutional funds even if patience is wearing thin. While equity and bond markets are choppy, though, many institutions would rather accumulate cash than commit fresh funds. Pension funds were certainly building cash balances during the first quarter. Long gilt

## UK economy

It is tempting to conclude from the latest statistics on consumer credit and the housing market that April's tax increases are starting to bite. Perhaps, though, it would be more relevant to ask how far the economy would now be set to overheat if there were no tax increases to dampen consumer demand. Consumer credit may have fallen compared with March but April's total of \$413m was still higher than January and February and more than double that of April last year. The slippage in housing market activity is more unsettling, but it seems unrelated to the tax increases: more likely it reflects the bunching of transactions earlier in the year while the cheapest fixed-rate mortgages were

## Philip Morris acts against Australian advertising ban

By Nikki Tait in Sydney

Philip Morris, the US cigarettes, food and brewing giant, yesterday launched a High Court action in Australia, seeking to overturn the country's ban on cigarette advertising on the grounds that it denies "commercial freedom of speech".

This is thought to be one of the first attempts by a US cigarette manufacturer to litigate against "anti-smoking" laws outside the US, and comes as the industry faces increasing pressure from regulators at home and in the international market.

The company said it filed a statement of claim because the restrictions imposed by the 1992 Commonwealth Tobacco Advertising Prohibition Act were "so wide-ranging that they deny it the right to take part in debate on political, public and social

issues and deny it the normal commercial freedom of speech.

"Important issues of freedom of speech are at stake because the restrictions deny us the right to communicate on political, public and commercial issues," said Mr David Davies, vice-president at Philip Morris.

The 1992 act made tobacco advertising illegal in Australia from the middle of last year. It will also phase out cigarette sponsorship of sporting events by the mid-1990s unless exemptions are obtained. Existing sponsorship contracts will be honoured.

When the legislation was introduced, federal health officials claimed that about 18,000 Australians died each year from tobacco-related diseases and the drain on health services amounted to about A\$6.8bn (US\$4.6bn) a year. Some 28 per cent of Australians are

estimated to be smokers.

Philip Morris claimed yesterday the trigger-point for its lawsuit came last month, when it tried to recall some promotional cigarette lighters, which were thought to be faulty. It said some Australian media groups claimed initially they could not publish the recall advertisement for fear of breaching the federal law. After a brief delay, modified advertisements were accepted.

Philip Morris employs about 4,000 people in Australia and says it pays more than A\$1bn in taxes and licence fees to state and federal governments.

"We believe it is unacceptable for such a significant organisation, responsible to so many shareholders, employees, suppliers and customers, to be denied the right... to engage in normal commercial communication," the company said yesterday.

## OECD lifts growth forecasts

Continued from Page 1

cent in the first half of this year. The OECD has revised its expectations of short-term interest rate developments. It expects US 3-month rates will rise to 5.8 per cent by late 1995, about 0.5 point higher than projected in December.

German short-term rates are expected to fall over the next 18

months, but less sharply than previously expected. The OECD expects German 3-month rates will be 4.3 per cent by the end of next year, against its earlier forecast of 3.8 per cent.

Like all projections, the latest OECD figures are subject to uncertainty, including possible negative effects from the recent sharp rise in long-term bond rates.

## Detergents battle heats up

Continued from Page 1

polite for us to give our supplier a chance to clarify the situation," the supermarket group said.

Mr Seth dismissed Procter & Gamble's research findings about damage to clothes as "irrelevant".

He said: "If you pick the right combination of dye, stains, material and basic colour, you can

get results which will show severe damage. If I want to, I can do the same with competing products."

The largest Dutch consumer protection group called on Unilever yesterday to make a clear distinction between the old and new Omo. Procter & Gamble launched the modified version in the Netherlands later this month.

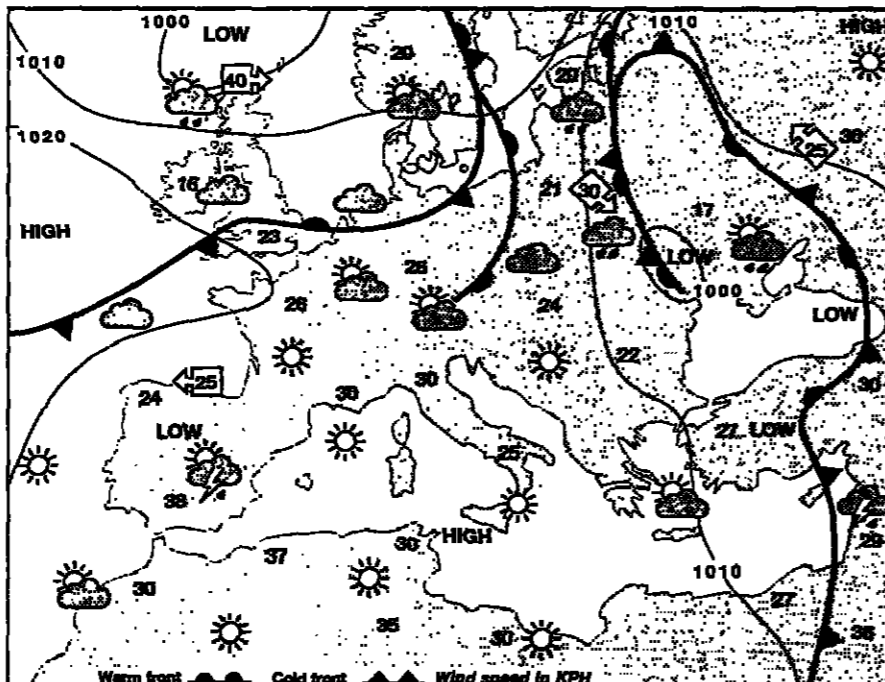
## FT WEATHER GUIDE

### Europe today

A wavering frontal zone will cause overcast skies over the British Isles and limited sunshine across the Low Countries, Germany and Poland. Scotland will have showers, which may be heavy at times. Wales and central England will have outbreaks of light rain, but elsewhere, it will remain dry and afternoon temperatures will rise to seasonable values. The Alps, the Czech Republic, Slovakia and Hungary will have sunny spells. Northern France will be partly cloudy, but central and southern France will have abundant sunshine. Tropical heat will trigger thunder showers over southern and central Spain. Sunshine will be plentiful over Italy and the western Balkans. The eastern Balkans will have a mixture of cloud and sunshine. Turkey and the Middle East will be partly cloudy with a few thunder showers.

### Five-day forecast

Western and central Europe will be changeable with outbreaks of rain or showers. Maximum temperatures will drop several degrees. Southern regions will continue sunny with temperatures still in excess of 30C in southernmost sections. Northern Europe will have a mixture of cloud, sunshine and showers.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

### TODAY'S TEMPERATURES

Maximum	Beijing	fair	30	Caracas	fair	27	Edinburgh	showers	17	Madrid	fair	36	Rangoon	thund	30
Celcius	delus	sun	37	Cardiff	drizz	16	Faro	sun	28	Mejorca	sun	28	Raykivik	showers	11
Abu Dhabi	sun	39	Belgrade	sun	23	Casablanca	sun	28	Malta	sun	27	Rio	fair	22	
Accra	showers	31	Berlin	cloudy	25	Chicago	thund	28	Geneva	sun	26	Rome	sun	28	
Algiers	sun	32	Bermuda	fair	26	Cologne	cloudy	26	Gibraltar	sun	28	S. Paolo	fair	21	
Amsterdam	cloudy	20	Bogota	rain	19	Dakar	fair	27	Glasgow	showers	16	Seoul	fair	30	
Athens	sun	25	Bombay	rain	32	Dallas	sun	34	Hamburg	cloudy	23	Singapore	cloudy	32	
Atlanta	thund	30	Brussels	fair	24	Doha	sun	44	Helsinki	cloudy	20	Stockholm	cloudy	19	
B. Aires	fair	14	Budapest	fair	23	Djarkarta	cloudy	32	Hong Kong	cloudy	30	Strasbourg	fair	24	
Bham	drizz	18	C.hagen	cloudy	19	Dubai	sun	37	Honolulu	fair	31	Sydney	fair	20	
Bangkok	thund	34	Calao	sun	28	Dublin	cloudy	17	Istanbul	showers	19	Taipei	fair	30	
Batavia	fair	28	Cape Town	cloudy	18	Dubrovnik	sun	25	Jersey	fair	18	Tel Aviv	sun	33	
									Karachi	sun	35	Tokyo	cloudy	24	
									Kuwait	sun	44	Toronto	sun	22	
									L. Angeles	sun	22	Vancouver	rain	17	
									Las Palmas	sun	26	Venice	sun	26	
									Lima	sun	20	Vienna	cloudy	25	
									Lisbon	sun	28	Warsaw	cloudy	22	
									London	cloudy	23	Washington	fair	32	
									Luxembourg	sun	25	Wellington	cloudy	10	
									Lyon	sun	26	Winnipeg	fair	23	
									Madeira	fair	24	Zurich	fair	25	



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## Argentina to sell off remaining 20% of YPF

By John Bartholomew and Stephen Fidler in Buenos Aires

Argentina yesterday came out in favour of selling the government's remaining 20 per cent stake in YPF, the privatised oil company.

The deal is expected to raise about \$1.5bn at current prices.

Mr Domingo Cavallo, the economy minister, said that the government was in favour of the sale with one condition. The sale of the stake is being heavily promoted by members of the governing Peronist party in Congress.

Mr Cavallo said: "It depends on the use the resources would be put to. If used for development of the interior, we would view it positively. If there was a one-off distribution of the resources as assistance, it would be an error."

YPF, Argentina's biggest company, was privatised in June last year in a \$3.04bn local and international share offering. The government sold 45 per cent of YPF to investors, held on to a 20 per cent stake and sold the remaining shares to workers, provincial governments and pensioners.



Domingo Cavallo: decision in two or three months

YPF now has a market capitalisation of close to \$8bn.

Last week members of Congress proposed selling the government's shares in YPF to finance construction of 100,000 houses in the run-up to next year's presidential election.

Mr Cavallo said the sale would be carried out through a public offering, but warned that debates in Congress and discussion over the use of the money meant that a final decision would probably only be taken in two or three months.

## Domtar to spin off gypsum and wallboard businesses

By Robert Gibbons in Montreal

Domtar, the big Canadian construction materials, pulp and paper and packaging group, plans to spin off its gypsum, wallboard and decorative panels business with an initial public offer in the US and possibly Canada that could raise more than C\$400m (US\$285.8m).

The assets, valued at about C\$380m, have already been put into a new 100 per cent-owned subsidiary, called America North Industries (ANI), including its wallboard plants plus gypsum mining operations, located mostly across the US and also Canada.

Domtar, which as North America's third biggest wallboard producer, The business

is recovering sharply with a rising US home building market.

ANI also includes Domtar's highly-profitable decorative panels business.

The initial public offer will be made through Kidder Peabody and Salomon Bros as lead underwriters. Concurrently ANI will raise another US\$125m via a public note issue.

Domtar could retain up to 40 per cent of ANI. It has already spun off its newspaper unit in a C\$280m initial public offer. It wants to concentrate now on its communications and business papers unit, specialty fine papers and packaging.

It is trying to negotiate management buy-outs of two pulp mills in eastern Canada.

## Cox climbs to third in US cable-TV league

Louise Kehoe examines the Atlanta-based company's \$2.3bn deal with the media group Times Mirror

Times Mirror, the US media group, reached a definitive agreement over the weekend to sell its cable television operations to Cox Enterprises, a privately-held Atlanta-based cable television and publishing group.

The complex \$2.3bn deal involves the exchange of stock and debt. It will make Cox Cable, the Cox Enterprises cable unit, the third largest US cable-TV company, after Time Warner, with around \$1m subscribers.

Currently, Cox Cable is the sixth largest US cable-TV company with 1.8m subscribers. The acquisition will provide Cox with the economies of scale needed to compete aggressively in the emerging market for broadband interactive multimedia communications services to

the home, said Mr James Robbins, president of Cox Cable.

Mr Robbins will also become chief executive of the merged operations. Through the merger, Cox will acquire cable TV systems in some of the most populous areas of southern California and Arizona.

The Cox-Times Mirror deal signals renewed investment interest in the cable-TV sector, which had cooled following the collapse of two planned telephone company-cable TV deals involving Bell Atlantic and TCI, and Southwestern Bell and Cox, earlier this year.

These agreements were scuttled by concerns about regulatory moves to cut cable-TV service prices by the Federal Communications Commission. "While we are not at all happy about the current state

of regulation, we believe strongly in the long-term cost effectiveness of the broadband platform," said Mr Robbins. "That's what this deal is all about."

The Cox-Times Mirror deal may encourage further consolidation in the cable-TV industry, analysts said. Several smaller cable-TV companies are said to be looking for buyers.

The cable-TV industry is being transformed by advances in technology that herald the emergence of "interactive" television services such as "video-on-demand", TV shopping and news and information services.

Under the terms of the deal, most of Times Mirror's shareholders will receive approximately 20 per cent of Cox Cable's stock, valued at about \$332m. Times Mirror's largest holder, the Chandler Trusts, is precluded from holding shares in Cox. Instead, they will receive new preferred stock with an equivalent value in Times Mirror.

In addition, Times Mirror will borrow about \$1.36bn and Cox will assume the debt while Times Mirror retains the funds.

group owns the Los Angeles Times, Newsday, and several other US newspapers and magazines.

Analysts said that Times Mirror recognised that it would have to make substantial investments to upgrade its cable-TV operations to remain competitive and chose instead to focus on its "core competencies" in publishing.

"With this merger, we have committed our future to the content side of the information highway and have gained substantial resources to pursue our growth strategy," said Mr Robert E. Burns, chairman, president and chief executive of Times Mirror.

Times Mirror aims to become a leading supplier of information and programming for digital media services, he said. The group plans to grow "through the application of new technol-

ogies and global expansion as well as building new positions in consumer multimedia", he declared.

As part of their agreement, Times Mirror and Cox Cable will form a partnership to develop and invest in cable television programming, the companies said. Times Mirror will manage this partnership.

A new Outdoor Life TV channel, previously announced by Times Mirror, will be funded by the new partnership. The companies have also agreed to explore a collaborative test of interactive information and entertainment services in Southern California.

Times Mirror said that it will reduce its stock dividend, following the completion of the deal, to "enable us to make very sizeable investments in promising information businesses".

### NEWS DIGEST

#### Malaysia futures trade soon

A financial futures market trading three-month interbank interest rates could start in Malaysia as early as September, Reuter reports from Kuala Lumpur.

"We're working toward a September target," said the Kuala Lumpur Commodity Exchange. However, the Securities Commission, which will regulate the new market said: "It all depends on when the regulatory requirement for a single clearing house is in place."

The commission urged the Kuala Lumpur Futures Market (KLFM) and rival Kuala Lumpur Options and Financial Futures Exchange (Kioffe) "to work harder at bringing about a single clearing house facility".

KLFFM, run by the commodity exchange, will initially trade in the three-month Kuala Lumpur interbank offered rate (Klibor).

Kioffe, which is not expected to begin operations until late next year, will trade in stock index futures.

KLFFM officials said it is possible they could set up a clearing house which Kioffe could join later.

#### GMA lifts stake in Dominion Mining

Gold Mines of Australia, the Perth-based mining company which launched a surprise all-share bid for the larger Dominion Mining group on Friday, said yesterday it had lifted its share stake in the target company to 9.9 per cent, writes Nikki Tait. The shares were bought at an average price of just under 44 cents each, costing GMA about A\$17m (US\$12.2m). The bid is worth around A\$180m.

#### Aros to quit bonds market-making

Aros Fondkommission, the Swedish broker, plans to withdraw from market-making in Swedish government bonds, Reuter reports from Stockholm.

It said it was withdrawing because of the difficulties of making a profit in recent turbulent conditions. Aros, owned by engineering group Asea Brown Boveri, is mainly involved in stockbroking, corporate finance and commercial paper programmes.

Aros, which began to make a market in state debt last autumn, said: "During the turbulent spring [debt] market it has been difficult for a new market-maker to reach a satisfactory profitability from this business."

In April and May the Aros made a positive result. It said it would continue to make a market in state T-bills and related derivatives as well as commercial paper.

#### Heavy losses for Italian bank

Banco di Sicilia, the leading financial institution on the island, has reported 1993 losses of L4.6bn (\$60m), one of the biggest annual losses recorded by an Italian regional bank, writes Robert Graham in Rome.

The bank is 14 per cent owned by the Treasury and the remainder is held by a foundation controlled by the Sicilian regional government. The losses, which compare with a break-even in 1992, are in line with estimates made by a Bank of Italy inspection last year.

The latter led to the resignation of several senior executives and an investigation by Palermo magistrates. Finalisation of the 1993 accounts should pave the way for a L949bn capital increase

#### Cameco proceeds with Kumtor project

Cameco, the big Canadian uranium producer, said it is proceeding with the development of the US\$300m Kumtor gold mining project in the former Soviet republic of Kyrgyzstan in central Asia, writes Robert Gibbons in Montreal.

Cameco is an operator with a one-third interest. A two-thirds interest is held by state-owned Kyrgyzstan. Start-up is due in 1997.

Kumtor has estimated reserves of 16.6m oz of gold, of which 6.8m oz can be mined by open-pit methods.

#### Preussag ahead in opening half

Net profits at Preussag, the diversified German steel, plant construction, energy and metals trading group, rose by DM6m to DM11m (\$71.2m) in the six months to end-March. Turnover rose to DM11.1bn from DM10.9bn.

## Foster's reorganises its brewing interests

By Nikki Tait in Sydney

Foster's Brewing, the Australian beer manufacturer which also owns Courage in the UK, yesterday announced a reorganisation of its brewing interests into four divisions based on geographical boundaries, and a reshuffle of top executive responsibilities.

The four divisions will be Australasia (taking in the Carlton and United Breweries business), North America (Molson Breweries), the UK/Europe (Courage), and a

newly-created Asia division.

Mr Pat Stone, current CUB managing director, is quitting Foster's "to pursue private interests". Mr Ted Kunkel, Foster's chief executive, will take responsibility for this division.

Mr Nuno D'Aquino, former director of operations and CUB and International, becomes chief operating officer of this division.

Head of the new Asian arm will be Mr Peter Williamson, previously director of sales and distribution at CUB. The Molson's and Courage operations are largely unchanged.

## Molson unit in SA deal

Diversey, the special chemicals arm of Canada's Molson brewing group, has bought the cleaning chemicals division of Chemrite in South Africa, writes Robert Gibbons in Montreal.

The deal gives Diversey a third foothold for expansion on the African continent. It already operates in Kenya and Egypt. "South Africa is the foundation for our expansion across

the entire southern cone of Africa," said Mr David Hull, Molson's senior vice-president for international operations.

He would not reveal the price but said local management would retain a minority stake in the business.

The Chemrite division has been making chemicals under licence from Diversey since 1981. Diversey operates in 45 countries with annual sales of well over C\$1bn.

This announcement appears as a matter of record only

## The Warburg World of Mining

<p>S.G. Warburg acted as financial adviser to</p> <p><b>MINORCO</b></p> <p>Minorco achieved a placing of 100 million shares in the London Stock Exchange and sold its holding in the company.</p> <p>January 1993</p>	<p>S.G. Warburg acted as financial adviser to</p> <p><b>Q</b></p> <p>Q achieved a placing of 100 million shares in the London Stock Exchange and sold its holding in the company.</p> <p>January 1993</p>	<p>S.G. Warburg acted as financial adviser to</p> <p><b>R</b></p> <p>R achieved a placing of 100 million shares in the London Stock Exchange and sold its holding in the company.</p> <p>January 1993</p>	<p>S.G. Warburg acted as financial adviser to</p> <p><b>Southern Peru</b></p> <p>Southern Peru achieved a placing of 100 million shares in the London Stock Exchange and sold its holding in the company.</p> <p>January 1993</p>
<p>S.G. Warburg acted as financial adviser to</p> <p><b>AP</b></p> <p>AP achieved a placing of 100 million shares in the London Stock Exchange and sold its holding in the company.</p> <p>January 1993</p>	<p>S.G. Warburg acted as financial adviser to</p> <p><b>GENERALE</b></p> <p>Generale achieved a placing of 100 million shares in the London Stock Exchange and sold its holding in the company.</p> <p>January 1993</p>	<p>S.G. Warburg acted as financial adviser to</p> <p><b>E</b></p> <p>E achieved a placing of 100 million shares in the London Stock Exchange and sold its holding in the company.</p> <p>January 1993</p>	<p>S.G. Warburg acted as financial adviser to</p> <p><b>AMOCO</b></p> <p>Amoco achieved a placing of 100 million shares in the London Stock Exchange and sold its holding in the company.</p> <p>January 1993</p>
<p>S.G. Warburg acted as financial adviser to</p> <p><b>PLACER DOME</b></p> <p>Placer Dome achieved a placing of 100 million shares in the London Stock Exchange and sold its holding in the company.</p> <p>January 1993</p>	<p>S.G. Warburg acted as financial adviser to</p> <p><b>ASARCO</b></p> <p>Asarco achieved a placing of 100 million shares in the London Stock Exchange and sold its holding in the company.</p> <p>January 1993</p>	<p>S.G. Warburg acted as financial adviser to</p> <p><b>CRA</b></p> <p>CRA achieved a placing of 100 million shares in the London Stock Exchange and sold its holding in the company.</p> <p>January 1993</p>	

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4 pm close June 6

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